

Scales Corporation Limited

Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2019

Scales Corporation Limited

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Scales Corporation Limited

Directory

Board of Directors

Tim Goodacre (Chair)
Andrew Borland (Managing Director)
Nick Harris
Mark Hutton
Alan Isaac
Lai Po Sing, Tomakin (Appointed on 28 January 2019)
Nadine Tunley (Appointed on 26 February 2019)
Weiyong Wang (Resigned on 28 January 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
Nadine Tunley

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Chapman Tripp

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Auckland 1010

Corporate Advisor

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Auckland 1010

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Takapuna
North Shore City
Auckland 0622

Scales Corporation Limited

Consolidated statement of comprehensive income for the six months ended 30 June 2019

		Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	Note	\$000's	\$000's	\$000's
Continuing operations				
Revenue	5	277,965	220,120	402,542
Cost of sales	5	(206,413)	(153,982)	(312,228)
		71,552	66,138	90,314
Administration and operating expenses		(21,946)	(20,091)	(40,512)
Fair value gain on recognition of investment in joint venture	13	10,102	-	-
Gain on disposal of Meateor New Zealand business	13	10,102	-	-
Other income		-	17	236
Other losses		(7)	-	-
Share of profit of entities accounted for using the equity method		1,273	678	1,706
EBITDA		71,076	46,742	51,744
Amortisation		(291)	(253)	(534)
Depreciation		(4,784)	(4,346)	(8,713)
Depreciation of right of use asset		(3,921)	-	-
EBIT		62,080	42,143	42,497
Finance revenue		493	17	265
Finance cost		(2,029)	(1,592)	(2,695)
Finance cost of lease liability		(1,531)	-	-
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		59,013	40,568	40,067
Income tax expense		(10,255)	(11,237)	(11,044)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		48,758	29,331	29,023
Profit from discontinued operations (net of tax)	11	73,002	5,436	16,476
PROFIT FOR THE PERIOD		121,760	34,767	45,499
Profit for the period from continuing operations is attributable to:				
Equity holders of the Company		47,029	29,094	28,608
Non-controlling Interests		1,729	237	415
		48,758	29,331	29,023

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

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:

Basic earnings per share (cents):

Continuing operations	8	33.6	20.8	20.5
Discontinued operations	8	52.2	3.9	11.8
Total	8	85.8	24.7	32.2

Diluted earnings per share (cents):

Continuing operations	8	33.5	20.8	20.4
Discontinued operations	8	52.1	3.9	11.7
Total	8	85.6	24.7	32.1

The notes to the financial statements on pages 10 to 21 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of comprehensive income for the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	\$000's	\$000's	\$000's
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on cash flow hedges	2,637	(9,110)	(6,775)
Income tax relating to cash flow hedges	(738)	2,551	1,897
Foreign exchange gain on translating foreign operations	54	-	49
	1,953	(6,559)	(4,829)
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings	-	-	9,762
Income tax relating to buildings	-	-	(175)
Revaluation of apple trees	-	-	(466)
Income tax relating to apple trees	-	-	131
	-	-	9,252
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	1,953	(6,559)	4,423
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	123,713	28,208	49,922
Total comprehensive income for the period attributable to:			
Equity holders of the Company	121,963	28,010	49,507
Non-controlling Interests	1,750	198	415
	123,713	28,208	49,922

The notes to the financial statements on pages 10 to 21 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of changes in equity for the six months ended 30 June 2019

Unaudited	Share capital \$000's	Reserves \$000's	Retained earnings \$000's	Attributable to owners of the Company \$000's	Non-controlling interests \$000's	Total \$000's
Six months ended 30 June 2019						
At 1 January 2019	94,184	71,999	80,109	246,292	3,581	249,873
Profit for the year	-	-	120,031	120,031	1,729	121,760
Other comprehensive income for the period	-	1,932	-	1,932	21	1,953
Total comprehensive income for the period	-	1,932	120,031	121,963	1,750	123,713
Reclassification of revaluation reserve	-	(25,912)	25,912	-	-	-
Recognition of share-based payments	-	433	-	433	-	433
Shares fully vested	955	(474)	(139)	342	-	342
Dividends	-	-	(13,326)	(13,326)	(962)	(14,288)
Balance at 30 June 2019	95,139	47,978	212,587	355,704	4,369	360,073
Six months ended 30 June 2018						
At 1 January 2018	93,750	66,887	60,839	221,476	441	221,917
Profit for the year	-	-	34,530	34,530	237	34,767
Other comprehensive loss for the period	-	(6,520)	-	(6,520)	(39)	(6,559)
Total comprehensive income for the period	-	(6,520)	34,530	28,010	198	28,208
Recognition of share-based payments	-	223	-	223	-	223
Shares sold	109	-	-	109	-	109
Shares fully vested	191	(31)	(46)	114	-	114
Dividends	-	-	(12,598)	(12,598)	(440)	(13,038)
Balance at 30 June 2018	94,050	60,559	82,725	237,334	199	237,533
Audited						
Year ended 31 December 2018						
At 1 January 2018	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 period	-	4,423	-	4,423	-	4,423
Total comprehensive income for the period	-	4,423	45,084	49,507	415	49,922
Business acquisition	-	-	-	-	3,165	3,165
Reclassification of revaluation reserve	-	(129)	129	-	-	-
Recognition of share-based payments	-	849	-	849	-	849
Shares sold	109	-	-	109	-	109
Shares fully vested	325	(31)	(46)	248	-	248
Dividends	-	-	(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 notes to the financial statements on pages 10 to 21 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of financial position as at 30 June 2019

		Unaudited Six months ended 30 June 2019	30 June 2018	Audited Year ended 31 December 2018
	Note	\$000's	\$000's	\$000's
EQUITY				
Share capital		95,139	94,050	94,184
Reserves	7	47,978	60,559	71,999
Retained earnings		212,587	82,725	80,109
Equity attributable to Scales Corporation Limited shareholders		355,704	237,334	246,292
Equity attributable to Non-controlling Interests		4,369	199	3,581
TOTAL EQUITY		360,073	237,533	249,873
CURRENT ASSETS				
Cash and bank balances		13,780	1,841	2,790
Term deposits		110,000	-	-
Trade and other receivables		94,929	73,361	22,910
Current tax assets		545	-	-
Other financial assets	9	3,932	3,917	3,921
Agricultural produce		59,118	61,558	20,547
Inventories		33,993	27,750	45,442
Prepayments		3,805	1,809	3,391
		320,102	170,236	99,001
Assets held for sale	11	-	111,995	104,378
TOTAL CURRENT ASSETS		320,102	282,231	203,379
NON-CURRENT ASSETS				
Property, plant and equipment		146,665	133,445	150,586
Investments accounted for using the equity method		24,360	4,685	5,213
Goodwill		43,953	16,188	43,875
Other financial assets	9	5,809	5,235	6,903
Computer software		870	1,135	1,131
Right of use asset		80,470	-	-
TOTAL NON-CURRENT ASSETS		302,127	160,688	207,708
TOTAL ASSETS		622,229	442,919	411,087
CURRENT LIABILITIES				
Bank overdrafts		-	-	3,749
Trade and other payables		63,414	57,401	27,282
Dividend declared	6	13,326	12,538	13,299
Borrowings		-	41,000	3,329
Current tax liabilities		18,862	14,822	845
Other financial liabilities	9	4,772	7,088	5,663
Lease liability		9,237	-	-
		109,611	132,849	54,167
Liabilities associated with assets held for sale	11	-	18,303	19,281
TOTAL CURRENT LIABILITIES		109,611	151,152	73,448
NON-CURRENT LIABILITIES				
Borrowings		64,762	40,000	64,664
Deferred tax liabilities		10,531	8,666	15,588
Other financial liabilities	9	5,522	5,568	7,514
Lease liability		71,730	-	-
TOTAL NON-CURRENT LIABILITIES		152,545	54,234	87,766
TOTAL LIABILITIES		262,156	205,386	161,214
NET ASSETS		360,073	237,533	249,873

The notes to the financial statements on pages 10 to 21 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of cash flows for the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	\$000's	\$000's	\$000's
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Receipts from customers	232,999	193,889	460,458
Dividends received	516	517	1,019
Interest received	493	18	280
	234,008	194,424	461,757
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees	(245,776)	(203,564)	(409,843)
Interest paid	(3,560)	(1,592)	(2,695)
Income tax paid	(5,011)	(5,093)	(12,652)
	(254,347)	(210,249)	(425,190)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(20,339)	(15,825)	36,567
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from sale of storage businesses net of cash	148,882	-	20,323
Proceeds from sale of Meateor New Zealand business to JV	15,000	-	-
Advances repaid	599	303	487
Sale of property, plant and equipment and computer software	4	-	120
	164,485	303	20,930
<i>Cash was applied to:</i>			
Net cash outflow on acquisition of businesses	-	-	(35,269)
Investment in term deposits	(110,000)	-	-
Purchase of computer software	(257)	(297)	(827)
Purchase of financial instruments	-	-	(932)
Purchase of property, plant and equipment	(4,915)	(5,301)	(15,589)
	(115,172)	(5,598)	(52,617)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	49,313	(5,295)	(31,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from term facility borrowings	-	-	33,945
Proceeds from seasonal facility borrowings	69,000	50,500	67,500
Proceeds from related party borrowings	-	-	1,329
Treasury stock sold	-	109	109
	69,000	50,609	102,883
<i>Cash was applied to:</i>			
Repayments of term facility borrowings	-	-	(10,000)
Repayments of seasonal facility borrowings	(71,000)	(16,000)	(72,000)
Repayments of related party borrowings	(1,329)	-	-
Repayments of lease liabilities	(3,424)	-	-
Dividends paid	(13,299)	(12,646)	(25,184)
Dividends paid to non-controlling interests	(962)	(440)	(440)
	(90,014)	(29,086)	(107,624)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(21,014)	21,523	(4,741)
NET INCREASE IN NET CASH	7,960	403	139
Net foreign exchange difference	50	-	(59)
Cash and cash equivalents at the beginning of the year	5,770	5,690	5,690
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	13,780	6,093	5,770
<i>Represented by:</i>			
Cash and bank balances	13,780	1,841	2,790
Bank overdrafts	-	-	(3,749)
Cash and bank balances attributable to discontinued operations	-	4,252	6,729
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	13,780	6,093	5,770


The notes to the financial statements on pages 10 to 21 form part of and should be read in conjunction with this statement.

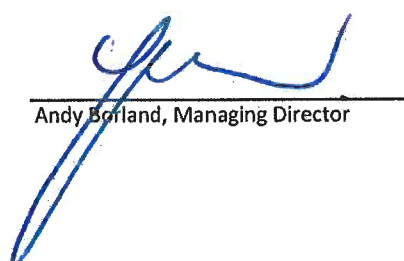
Scales Corporation Limited

Consolidated statement of cash flows for the six months ended 30 June 2019 (continued)

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	\$000's	\$000's	\$000's
NET CASH GENERATED BY OPERATING ACTIVITIES			
Reconciliation of profit for the year to net cash generated by operating activities:			
Profit for the year	121,760	34,767	45,499
<i>Non-cash items:</i>			
Gain on disposal of storage businesses	(68,131)	-	(8,174)
Gain on disposal of Meateor New Zealand business	(10,102)	-	-
Fair value gain on recognition of investment in joint venture	(10,102)	-	-
(Gain) loss on disposal of property, plant and equipment	(4)	193	127
Amortisation	291	414	643
Depreciation	8,705	6,648	10,779
FX option premiums	547	-	-
Deferred tax	(5,612)	(5,935)	1,306
Share of equity accounted results	(1,273)	(678)	(1,706)
Share-based payments	433	231	983
Change in gross liability on put options	-	-	(147)
<i>Items classified as investing and financing activities:</i>			
Working capital amounts included in acquisition of businesses	-	-	8,180
Dividends received from equity accounted company	500	500	1,000
<i>Changes in net assets and liabilities:</i>			
Trade and other receivables	(74,915)	(60,857)	(8,599)
Agricultural produce	(38,571)	(41,369)	(358)
Inventories	(4,031)	(5,670)	(23,345)
Prepayments	(1,298)	1,382	(302)
Trade and other payables	43,656	39,978	9,733
Current tax	17,808	14,571	948
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(20,339)	(15,825)	36,567

For and on behalf of the Board of Directors who authorised the issue of these interim financial statements on 27 August 2019.


Tim Goodacre, Chairman


Andy Borland, Managing Director

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

1. GENERAL INFORMATION

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

2. FINANCIAL STATEMENTS

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

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report for the year ended 31 December 2018.

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

Non-current assets held for sale

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

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

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

Application of NZ IFRS 16 *Leases*

Transition

NZ IFRS 16 *Leases* introduced a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. NZ IFRS 16 superseded the previous lease guidance including NZ IAS 17 *Leases* and the related interpretations when it became 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.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

2. FINANCIAL STATEMENTS (CONTINUED)

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 is also affected as operating lease payments under NZ IAS 17 were presented as operating cash flows; whereas under the NZ IFRS 16 model, the lease payments are split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

The Group applied NZ IFRS 16 on 1 January 2019 using the modified retrospective (full simplified) transition method. At transition, lease liabilities were measured at present value of the remaining lease payments, discounted at the IBR as at 1 January 2019. Right-of-use assets are measured equal to lease liabilities. Comparative periods presented were not restated.

The Group took advantage of practical expedients available under NZ IFRS 16 C3 (a) and (b). That is, instead of reassessing all contracts to identify leases using new NZ IFRS 16 guidance on transition date, all existing contracts that were previously identified as leases using the old NZ IAS 17 and NZ IFRIC 4 *Determining whether an arrangement contains a lease* guidance are treated as leases under NZ IFRS 16. Any contracts that were not identified as leases under NZ IAS 17 and NZ IFRIC 4 as at transition date, were not treated as leases.

Most of the Group's non-cancellable operating lease commitments met the definition of a lease under NZ IFRS 16, and hence the Group recognised a right-of-use asset and a corresponding liability in respect of all these leases unless they qualified for low value or short-term leases upon the application of NZ IFRS 16. The expense that would previously be recorded in relation to operating leases moved from being included in operating expenses (and within EBITDA), to depreciation and finance expense for the periods beginning on or after 1 January 2019.

The impact on net earnings before income tax of an individual lease over its term remains the same, however, the new standard results 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.

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR was determined based on the interest rate on the external borrowing facilities available to the Group (since those rate incorporate a risk-free rate for the primary economic environment the Group operates in and the credit spread specific to the Group), adjusted for the weighted average lease term by reference to the interest swap rates published by the Reserve Bank of New Zealand, adjusted for asset type and subsidiary credit spread.

The weighted average IBR applied to lease liabilities on 1 January 2019 was 3.82%.

The aggregate lease liability and right-of-use asset recognised in the statement of financial position at 1 January 2019 and the Group's operating lease commitment at 31 December 2018 can be reconciled as follows:

Lease liability recognised on transition

Future minimum lease payments under non-cancellable operating leases as at 31 December 2018 (audited)	
Future lease payments on renewal options that are reasonably certain (unaudited)	
Future lease payments on short-term and low value leases (unaudited)	
Effect of discounting (unaudited)	
Lease liability as at 1 January 2019 (unaudited)	

\$000's
49,775
63,547
(2,525)
(27,827)
82,970

The Group is reasonably certain it will exercise options to extend the lease on all material leases.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

2. FINANCIAL STATEMENTS (CONTINUED)

Right-of-use asset recognised on transition	Nature of leased assets	Lease term	Unaudited \$000's
Land and buildings	Orchards, packhouses, coolstores, office buildings	1-25 years	77,651
Plant and equipment	Labelling systems and vehicle monitoring systems	1-4 years	294
Office equipment and motor vehicles	Tractors, utes, forklifts, sprayers	1-5 years	5,025
Right-of-use asset as at 1 January 2019			82,970

In applying the modified retrospective approach, the Group has taken advantage of the following practical expedients:

- A single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases (i.e. not recognised on balance sheet) even though the initial term of the leases from lease commencement date may have been more than twelve months.

New accounting policy from 1 January 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognised a right-of-use asset and a corresponding liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Group applies the practical expedient and recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate (IBR).

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

2. FINANCIAL STATEMENTS (CONTINUED)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Right-of-use assets are depreciated over the shorter period of either the lease term or the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies NZ IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss under this standard.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Administration and operating expenses" in the statement of comprehensive income.

As a practical expedient, NZ IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

3. SEGMENT INFORMATION

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

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

Food Ingredients: processing and marketing of food ingredients such as pet food ingredients and juice concentrate. Meateor Foods Limited, Meateor Foods Australia Pty Limited, Meateor Group Limited, Meateor US LLC, Shelby JV LLC Group (Shelby Cold Storage Inc, Shelby Exports Inc, Shelby Foods Inc, Shelby JV LLC, Shelby Properties LLC, Shelby Trucking Corp), Meateor GP Limited, Meateor Pet Foods Limited Partnership 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, Scales Employees Limited, Scales Holdings Limited and Selacs Insurance Limited.

	Horticulture	Food Ingredients	Logistics	Other	Eliminations	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Six months ended 30 June 2019						
Total segment revenue	159,512	80,713	54,845	1,838	(18,943)	277,965
Inter-segment revenue	-	-	(17,328)	(1,615)	18,943	-
Revenue from external customers	159,512	80,713	37,517	223	-	277,965
Segment profit (loss) before income tax	35,776	24,536	2,845	(4,144)	-	59,013
Segment assets	376,941	100,023	23,827	121,438	-	622,229
Segment liabilities	166,747	9,108	15,907	70,394	-	262,156
Six months ended 30 June 2018						
Total segment revenue	143,842	45,521	46,222	1,875	(17,340)	220,120
Inter-segment revenue	-	-	(15,655)	(1,685)	17,340	-
Revenue from external customers	143,842	45,521	30,567	190	-	220,120
Segment profit (loss) before income tax	36,108	5,945	2,796	(4,281)	-	40,568
Segment assets	280,881	38,013	15,114	(3,084)	-	330,924
Segment liabilities	85,772	9,819	9,056	82,436	-	187,083
Year ended 31 December 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
Segment profit (loss) before income tax	35,254	10,443	4,632	(10,262)	-	40,067
Segment assets	198,761	92,382	10,706	4,860	-	306,709
Segment liabilities	43,958	20,330	6,650	70,995	-	141,933

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

4. SEASONALITY OF BUSINESS

All business segments are subject to seasonal fluctuation. The apple crop has been picked and packed and the export programme is well under way as at 30 June. Higher volumes are processed through the pet food ingredients plants in the first half of the year due to the seasonal nature of the meat industry and there is greater utilisation of logistics services over the first half year as seasonal products are shipped to export markets.

At 30 June the harvested crop held in inventory is valued at fair value less estimated costs to sell. At 31 December the unharvested crop is valued at fair value less estimated costs to sell. Both the harvested crop at 30 June and the unharvested crop at 31 December are included in agricultural produce.

5. FINANCIAL PERFORMANCE

(a) Revenue

	Unaudited Six months ended		Audited Year ended
	30 June 2019	30 June 2018	31 December 2018
	\$000's	\$000's	\$000's
By nature:			
Revenue from the sale of goods	229,771	175,580	312,890
Revenue from the rendering of services	47,515	38,051	84,918
Fees and commission	27	30	84
Net foreign exchange (loss) gain	(1,800)	4,319	1,688
Rental revenue	2,452	2,140	2,962
	277,965	220,120	402,542
By segment and type:			
Horticulture - sale of agricultural produce	148,680	134,797	232,041
Horticulture - agricultural produce related services	8,384	6,905	19,572
Horticulture - other	2,448	2,140	2,955
Food ingredients - sale of pet food ingredients	79,280	44,977	82,246
Food ingredients - other	1,433	544	807
Logistics services	37,517	30,567	64,487
Other	223	190	434
	277,965	220,120	402,542

(b) Cost of sales

Cost of sales includes a \$3.0m provision for the write-down of inventories to net realisable value (six months ended 30 June 2018: nil; year ended 31 December 2018: nil).

6. DIVIDENDS

During the six months ended 30 June 2019 the Directors paid an interim dividend of 9.5 cents per share and resolved to pay a final dividend of 9.5 cents per share in respect of the year ended 31 December 2018. This final dividend was paid on 5 July 2019.

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

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

7. RESERVES

Unaudited	Revaluation \$000's	Cash flow hedge \$000's	Equity- settled employee benefits \$000's	Foreign exchange translation \$000's	Revaluation related to discontinued operations \$000's	Total reserves \$000's
Six months ended 30 June 2019						
At 1 January 2019	44,540	250	1,248	49	25,912	71,999
Other comprehensive income for the year	-	1,878	-	54	-	1,932
Reclassification of revaluation reserve	-	-	-	-	(25,912)	(25,912)
Recognition of share-based payments	-	-	433	-	-	433
Shares fully vested	-	-	(474)	-	-	(474)
Balance at 30 June 2019	44,540	2,128	1,207	103	-	47,978
Six months ended 30 June 2018						
At 1 January 2018	61,329	5,128	430	-	-	66,887
Other comprehensive income (loss) for the year	-	(6,520)	-	-	-	(6,520)
Reclassification of revaluation reserve	(26,041)	-	-	-	26,041	-
Recognition of share-based payments	-	-	223	-	-	223
Shares fully vested	-	-	(31)	-	-	(31)
Balance at 30 June 2018	35,288	(1,392)	622	-	26,041	60,559
Year ended 31 December 2018						
At 1 January 2018	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)
Reclassification of revaluation reserve	(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

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

8. EARNINGS PER SHARE

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
Profit attributable to equity holders of the Company (\$'000's):			
From continuing operations	47,029	29,094	28,608
From discontinued operations	73,002	5,436	16,476
Total	120,031	34,530	45,084
Weighted average number of shares:			
Ordinary shares	139,963,886	139,769,286	139,869,055
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	221,035	199,783	447,143
Weighted average number of Ordinary Shares for diluted earnings per share	140,184,921	139,969,069	140,316,198
Earnings per share (cents):			
Basic - continuing	33.6	20.8	20.5
Basic - discontinued	52.2	3.9	11.8
Basic - total	85.8	24.7	32.2
Diluted - continuing	33.5	20.8	20.4
Diluted - discontinued	52.1	3.9	11.7
Diluted - total	85.6	24.7	32.1

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

9. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	\$000's	\$000's	\$000's
Current:			
<i>At fair value:</i>			
Foreign currency derivative instruments	3,932	3,917	3,921
	3,932	3,917	3,921
Non-current:			
<i>At fair value:</i>			
Foreign currency derivative instruments	5,187	4,180	6,024
Shares in unlisted companies	211	211	211
<i>At amortised cost:</i>			
Employee loans	411	844	668
	5,809	5,235	6,903
Current financial liabilities at fair value:			
Foreign currency derivative instruments	1,744	4,023	2,662
Interest rate swap contracts and forward rate agreements	578	495	577
Put option	2,450	2,570	2,424
	4,772	7,088	5,663
Non-current financial liabilities at fair value:			
Foreign currency derivative instruments	2,376	4,817	4,646
Interest rate swap contracts and forward rate agreements	1,052	751	780
Put option	2,094	-	2,088
	5,522	5,568	7,514

Foreign Currency Derivative Instruments

The Group is exposed to currency risk as a result of normal trading transactions denominated in foreign currencies. The Group uses foreign currency derivative financial instruments to manage its currency risk. The fair value of foreign currency derivative financial instruments at the reporting date is determined on a discounted cash flow basis whereby future cash flows are estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. The Group's forward foreign exchange contracts and foreign exchange options are classified as Level 2 in the fair value hierarchy.

These foreign currency instruments are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions. It is anticipated that the sales will take place during the 2019 to 2023 financial years at which stage the amount deferred in equity will be released into profit or loss.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

Interest Rate Swap Contracts and Forward Rate Agreements

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

Under interest rate swap contracts and forward rate agreements, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts, some of which may commence in future reporting years, enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued floating rate debt. The fair value of these contracts at the reporting date is determined by discounting the future cash flows using the forward interest rate curves at reporting date and the credit risk inherent in the contracts. The average contracted fixed interest rate is based on the notional principal amount at balance date. The Group's interest rate swap contracts and forward rate agreements are classified as Level 2 in the fair value hierarchy.

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

10. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

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

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	\$000's	\$000's	\$000's

(b) Key management personnel remuneration

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

Short-term employee benefits and directors' fees	1,602	1,471	3,002
Share-based payments	89	850	963
Post-employment benefits	49	52	111
	1,740	2,373	4,076

(c) Transactions with equity accounted entities

Revenue from sale of goods	1,977	1,165	1,306
Revenue from services	1,193	-	1,322
Services purchased	(267)	-	-
Dividends received	500	500	1,000
Trade receivables at balance date	55	111	97

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

11. DISCONTINUED OPERATIONS

On 9 May 2018 the Company announced an agreement to sell its cold storage 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, was to Emergent Cold, a global cold chain company. The sale became effective from 1 June 2018 and settled on 17 May 2019. All earnings post 1 June 2018 accrued to the purchaser. Interest was charged on the purchase price until the sole condition, being OIO approval, was satisfied. These two elements were reflected as a purchase price adjustment and have been factored into the consideration referred to above.

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

The results of discontinued operations are set out below:

	Unaudited Six months ended 30 June 2019	Unaudited Six months ended 30 June 2018	Audited Year ended 31 December 2018
	\$000's	\$000's	\$000's
Revenue	24,491	35,097	62,164
Cost of sales	(9,502)	(13,920)	(25,873)
	14,989	21,177	36,291
Other operating expenses including transaction costs	(7,894)	(10,786)	(21,968)
EBITDA	7,095	10,391	14,323
Amortisation	-	(161)	(109)
Depreciation	-	(2,302)	(2,066)
EBIT	7,095	7,928	12,148
Finance revenue	-	-	15
Profit before tax from discontinued operations	7,095	7,928	12,163
Income tax expense	(2,224)	(2,492)	(3,861)
Profit before tax from discontinued operations	4,871	5,436	8,302
Gain on disposal net of tax	68,131	-	8,174
Profit from discontinued operations net of tax attributable to equity holders	73,002	5,436	16,476

The net cash flows pertaining to the entities referred to above are as follows:

Operating	5,972	7,289	13,612
Investing	(1,140)	(1,727)	(4,908)
Financing	-	-	-
Net cash inflow	4,832	5,562	8,704

12. CAPITAL COMMITMENTS

Commitments entered into in respect of apple trees as at balance date	1,714	1,911	1,199
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Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2019

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

On 7 March 2019, the Company announced an agreement to enter into a pet food Joint Venture (JV) with Alliance Group Limited (Alliance). Under the terms of the JV, Alliance would pay \$15 million to acquire a 50% interest in Meateor Food Limited's (a wholly owned subsidiary of the Group) New Zealand business and operations. The sale settled on 1 April 2019.

Accordingly, Meateor Pet Foods Limited Partnership (MPFLP) was incorporated on 13 March 2019. The general partner of MPFLP is Meateor GP Limited incorporated on 12 Mar 2019, which is owned 50/50 by the Group and Alliance.

MPFLP acquired Meateor Foods Limited's New Zealand business and operations for \$30 million. The Group and Alliance each contributed \$15 million in exchange for a 50% limited partnership interest. \$15 million capital contribution from the Group was set off against \$30 million receivable from MPFLP.

A total \$20.2 million gain was recognised which includes gain on sale of Meateor New Zealand business to the JV and gain on fair value measurement of the interest in the JV.

	Unaudited \$000's
Net proceeds on disposal	15,000
Plus: Difference between target and actual working capital receivable	3,374
Plus: Fair value of investment retained (50% of MPFLP)	18,374
Less: Net assets disposed	(16,544)
Gain on sale	20,204

14. 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 event is under investigation by specialists and has not yet been accepted.

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.

15. EVENTS OCCURRING AFTER BALANCE DATE

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



INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS OF SCALES CORPORATION LIMITED

We have reviewed the condensed consolidated interim financial statements of Scales Corporation Limited and its subsidiaries ('the Group') which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of comprehensive income for the six months ended 30 June 2019, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 4 to 21.

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

Board of Directors' Responsibilities

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

Our Responsibilities

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

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

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 June 2019 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

Deloitte Limited

Chartered Accountants

27 August 2019

CHRISTCHURCH, NEW ZEALAND