Scales
growing New Zealand

Scales Corporation Limited
Annual Report
2020

Mr Apple coolstore at Whakatu - commissioned in February 2021.

Contents

Adapt. Support. Grow.

"Unity, personal commitment and adaptation to change – core characteristics of the Scales team."

Our 109th year of trading was a year like no other. From lockdowns, to travel restrictions, and supply chain disruption, the team successfully navigated a series of obstacles. Deemed to be essential businesses, we operated throughout all lockdown periods, and our staff worked tirelessly to respond to the difficulties put in front of them.

Their safety was, and always is, our absolute priority and we are indebted to the strength and bravery of our people during those times. For the 2020 year, not only did Scales perform strongly, we continued to exceed expectations and break records. This is testament to the leadership, teamwork and commitment exhibited by each individual business. The world may have irrevocably changed, but we look forward to the evolution of Scales as it operates in a 'new normal'.

"Thank you to our team of 2,500 for your hard work and dedication."

Horticulture

Vertically integrated apple grower, packer & marketer

Apple marketer

Logistics

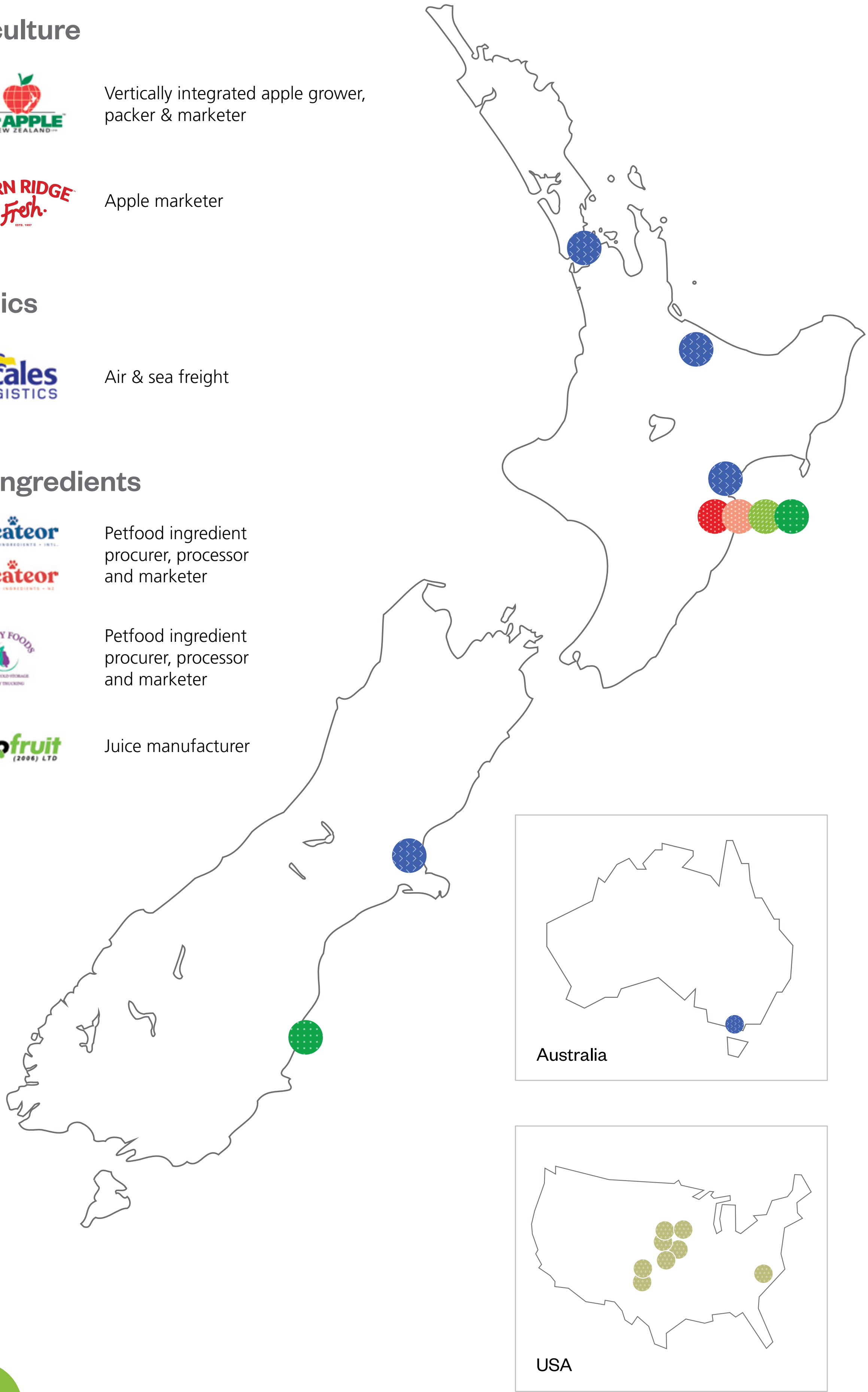
Air & sea freight

Food Ingredients

Petfood ingredient procurer, processor and marketer

Petfood ingredient procurer, processor and marketer

Juice manufacturer



Our Numbers

Reported Profit for the Year

$26.6m

(2019: $121.6 million)

Underlying EBITDA

$53.9m

(2019: $52.7 million)

Underlying Net Profit After Tax

$33.8m

(2019: $36.4 million)

5.74m

TCEs

of all apples exported

(2019: 5.95 million TCEs)

15.0c

earnings per share (EPS)

(2019: 84.2 cents)

0.5m+

apples donated to local and overseas communities

$97.6m

Net Cash

(2019: $104.9 million)

35,502

TEUs of ocean freight managed

(2019: 39,438 TEUs)

Revenue

$470.7m

(2019: $484.6 million)

3.92m

TCEs
of own-grown apples exported, up 2 per cent

Return on Capital Employed (ROCE)

15%

(2019: 16 per cent)

Third
annual carbon footprint certification undertaken

Dividends declared of

19.0c

per share
(2019: 19.0 cents)

First
climate change report prepared

Almost

580m

apples picked

6.5m

litres of juice sold,
up 6 per cent

115,739

metric tonnes
of petfood ingredients sold[1], up 4 per cent

First
pay equality review completed

[1] Includes 100 per cent of volumes from Meateor NZ; i.e. total volumes controlled directly and indirectly by the Meateor Group.

Performing under pressure

Managing Director and Chair's Report

The launch of Dazzle™ in 2020 at high-end Chinese retailer, Hema.

On behalf of the Board, we are pleased to present Scales' Annual Report for the year ended 31 December 2020.

This was a turbulent year, but one in which Scales reported a solid result with Revenue of $470.7 million and a Profit for the Year of $26.6 million. Our Underlying[1] results were also pleasing, with Underlying EBITDA and Underlying NPAT of $53.9 million and $33.8 million respectively.

The benefit of our diversified agribusiness strategy was once again demonstrated. Strong growth in the Food Ingredients division offset lower earnings in the Horticulture division, due to the effect and timing of global lockdowns, driving a significant change in the earnings mix between divisions as compared to previous years.

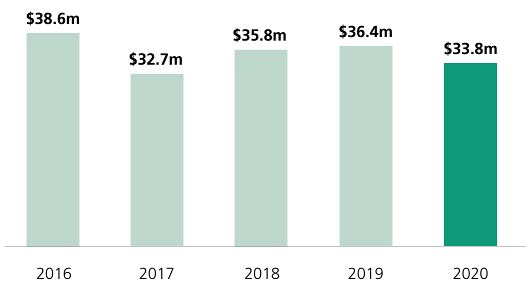
	2020 $'000	2019 $'000	Change
Revenue	470,709	484,609	-3%
EBITDA	56,740	79,853	-29%
Underlying EBITDA	53,862	52,699	2%
Net Profit	26,581	121,577	-78%
Underlying Net Profit	33,764	36,399	-7%


Andy Borland and Tim Goodacre.

The graphs below show Underlying EBITDA and Underlying NPAT for a five-year period. It should be noted that the historic results have not been amended for businesses that have been divested or acquired and therefore reflect the changes in Group structure, particularly from 2019 onwards.

Underlying EBITDA

Underlying NPAT



[1] Directors and management use non-GAAP (Underlying) profit measures when discussing financial performance in this document. The Directors and management believe that these profit measures provide meaningful information that is helpful to investors and give them a better understanding of a company's financial performance when presented in addition to GAAP (NZ IFRS) information. Underlying profit measures are used internally to evaluate performance of our divisions, establish operational goals and to allocate resources. They also represent some of the profit measures required by Scales' debt providers. Non-GAAP (Underlying) 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 entities report and should not be viewed in isolation or considered as a substitute for GAAP (NZ IFRS) measures reported by Scales. Underlying profit measures were not subject to an audit or review.

A full reconciliation between Underlying and NZ IFRS measures is provided on pages 38 and 39.

All of the above measures (both Underlying and NZ IFRS) are presented before the deduction of Fern Ridge and Shelby non-controlling interests in NPAT of $5.6 million (2019: $3.6 million).

Shareholder Returns

Long term returns to our shareholders continues to be of importance to us. Shareholders who invested in our IPO in July 2014 will have achieved a 257 per cent return[1] on funds invested to the end of February 2021. By comparison, an investment in the S&P NZX50 would have delivered a 135 per cent return on funds invested over the same period.

Strategy

Scales' Vision

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

Scales' Long Term Goal

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

Strategic Update

Whilst our ability to visit new overseas opportunities has been curtailed by COVID-19 travel restrictions, we continue to actively research and review growth opportunities. These included both internal projects, such as the construction of our new coolstore at Whakatu, and external acquisition or investment prospects.

We will continue to seek opportunities that align with our core strategic vision, play to our strengths and provide a return in line with our target ROCE.

[1] Calculated as the difference between the closing share price on 26 February 2021 plus all net dividends paid (a total of $1.105 per share) and the IPO listing price of $1.60.

Specific Strategic Targets

Division	Target	Status
Group	**Sustainability**	***Excellent 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.	In-depth materiality assessment undertaken. Third carbon footprint certification process completed. Inaugural Task Force on Climate-related Financial Disclosures (TCFD) report prepared. Pay equality review undertaken. First social practices audit of the Mr Apple external supply chain.
	Financial and operational	***On Track***
	• Maintain financial returns in line with, or above, industry returns. • Continue to seek acquisitive and organic growth to expand the business.	A large number of opportunities actively 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 maintained at 9.5 cents per share. Continued to maintain Group ROCE above long-run target of 15 per cent.
Horticulture	**Brand and Intellectual Property development**	***Good Progress***
	• Continue to develop the Mr Apple brand, particularly within our key markets of Asia and the Middle East.	Ongoing in-market branding initiatives and marketing activations undertaken. Continued development of presence in China. Innovations in product development and launches.
	Volumes	***Excellent Progress***
	• Reach 4 million export TCEs of our own-grown apples.	3.92 million TCEs exported, 3 per cent ahead of forecast.
	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).	Maintained percentage volume of sales to Asia and Middle East markets. Continued focus on retail and e-commerce channel sales.
	Plant Varieties	***Good Progress***
	• Acquire new Plant Variety Rights (PVRs) to meet emerging needs. • Redevelop lower-performing orchards and varieties into higher value crops.	Phase 2 of orchard redevelopment plan completed, with 36 hectares of orchard redeveloped during winter 2020. Dazzle™ launched through high end Chinese retailers.
Food Ingredients	**Increase scale and expand offering**	***Significant Progress***
	• Review strategic initiatives and consider organic and acquisition opportunities to increase divisional scale.	Advantage taken of the geographical and protein diversification provided through Shelby and the Meateor businesses. New toll processing plant in Dodge City, Kansas, secured. Ongoing growth opportunities being actively investigated.
Logistics	**Expand logistics offerings**	***Ongoing***
	• Develop scale to utilise the expertise and capacity within the team.	Successfully navigated global supply chain disruptions caused by COVID-19.

Sustainability

Sustainability remains an important part of both our strategic and day-to-day operations and we have continued to make considerable progress during 2020, despite the disruptions of COVID-19. We are excited to include an inaugural TCFD (climate change) report this year as we believe it is a concern for all global businesses, of which we are one.

This year we undertook a materiality assessment, the first since our initial materiality review was completed in 2016. This has identified new areas of interest and, during 2021, we will work towards realigning our strategy and environmental plan in line with the results, whilst developing bigger and bolder goals for our future.

We encourage you to read our full report in the Sustainability section.

Scales' Team

Each year we are keen to recognise and thank our hard-working Scales team as we are aware that our results would not be possible without their skill, attitude and personal commitment. This year brought a number of additional challenges and, as an essential business, our staff continued to work in difficult and uncertain times.

We are proud of how each and every staff member rose to the challenge, and bravely and conscientiously carried out their responsibilities in a safe manner. We are also pleased to note that all staff were paid in full during the lockdowns, without New Zealand government wage subsidies.

Health and safety of our staff continues to be a top priority for us and this was of particular concern at the start of the March 2020 lockdown. New protocols were quickly implemented, in compliance with Ministry of Primary Industries' best practice, and we continue to operate under this 'new normal' today.

We are constantly reviewing our practices, with a view to expanding on, and developing, our health and safety initiatives. Every incremental change made is a success and we are proud to note a decrease in the number and severity of incidents.

The Board would like to thank every member of staff for the energy and commitment that is brought by them.

Appropriately Incentivising our Team

As in prior years, Scales' management team is accountable for implementing the strategies as directed by the Board and therefore we continue to have a strong incentive-based remuneration scheme. This is aligned to positive personal performance as well as retaining and developing excellent team members over the long-term.

The incentive-based remuneration schemes are an important part of the Board and Managing Director's objectives, with shorter term incentives being balanced alongside long-term business interests. Our remuneration philosophy and analysis of executive remuneration is detailed more fully in the Corporate Governance Statement on pages 91 to 104.

Group Financials

Summary

We are pleased to present Revenue and Underlying EBITDA of $470.7 million and $53.9 million respectively, for the year ended 31 December 2020. Whilst Revenue was down 3 per cent on last year, Underlying EBITDA increased slightly compared to 2019 due to an excellent performance by the Food Ingredients division.

Additional detail of the performance of each division is provided in the Divisional Overview section.

Income Statement

	2020 $'000	2019 $'000
Revenue	470,709	484,609
Underlying EBITDA	**53,862**	**52,699**
Underlying EBIT	**42,984**	**42,453**
Underlying Net Profit	**33,764**	**36,399**
After tax impact of:		
Non-cash, NZ IFRS and other adjustments	(7,183)	85,178
Net Profit	**26,581**	**121,577**
Capital employed	293,041	280,625
ROCE	15%	16%

Capital Management

ROCE is a measure of how efficiently we are generating a return on our assets and it continues to be an important performance metric for each division and the Group. It is at the heart of how we monitor the performance of the portfolio and make 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.

	2020	2019
ROCE		
Horticulture	11%	17%
Food Ingredients	29%	16%
Logistics	89%	70%
Group	**15%**	**16%**
Target	*15%*	*15%*

Group capital employed increased by $12.4 million in 2020. This was primarily due to an increase in Horticulture capital employed as a result of the construction of its new coolstore and orchard redevelopment expenditure. We expect Horticulture ROCE to remain below target levels until redeveloped orchards reach maturity from 2023 onwards.

Scales' basic earnings per share for the year ended 31 December 2020 was 15.0 cents per share (84.2 cents per share in the year ended 31 December 2019).[1]

Financing

Average Net Cash for the year was $76.2 million, a reduction of $5.8 million compared to Average Net Cash during 2019 of $82.0 million. The movement reflects operating earnings offset by investments in capital expenditure.

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 Logistics divisions are also affected. We also have exposure to movements in interest rates, both on borrowings and deposits.

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

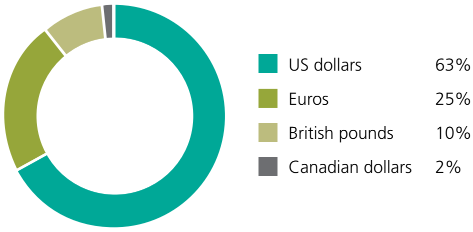
Under this policy we may take foreign exchange cover for Mr Apple for up to 48 months using a variety of foreign exchange instruments (including options and forward contracts). Scales maintains a blend of instruments. In addition, Scales attempts to manage the cover levels for seasonal and market variations for future years.

We continue to have a natural hedge covering some of our US dollar exposure as international shipping is payable in US dollars. We take cover on the remaining expected net US dollar, Euro, British pound and Canadian dollar exposures.

In general, Food Ingredients and Logistics cover foreign currency exposures once contracted.

Foreign currency

In 2020, Mr Apple's net foreign currency exposures were as shown below:



The average conversion rate of Mr Apple's main foreign currency exposures since 2017 were as noted below:

	2020	2019	2018	2017
USD	.6424	.6664	.6790	.6858
EUR	.5671	.5663	.5806	.5846
GBP	.5101	.4658	.4839	.4535
CAD	.8657	.8650	.8582	.8625

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

The hedging position for Mr Apple's main foreign currency exposures, as at 3 March 2021, was:

		2021	2022	2023	2024	2025
USD	% cover of expected exposure	66%	46%	32%	3%	-
	Average rate of cover	.6552	.6534	.6364	.6250	-
EUR	% cover of expected exposure	83%	80%	53%	53%	19%
	Average rate of cover	.5476	.5335	.5396	.5278	.5555

Interest rates

In addition, we take out interest rate swaps and forward rate agreements, which provide some certainty on interest costs on Scales' term and short-term borrowings. As at 31 December 2020 our NZ dollar term debt was 100% covered by interest rate swaps. We funded the US dollar investment in Shelby via a US dollar term loan to provide a hedge on the investment.

Dividend

A final 2019 fully imputed cash dividend of 9.5 cents per share (a gross amount of 13.2 cents per share) was paid on 10 July 2020. Together with a 2019 interim dividend of 9.5 cents per share (a gross amount of 13.2 cents per share) that was paid on 17 January 2020, this brought the annual dividends for 2019 to a total of 19.0 cents per share (a gross amount of 26.4 cents per share).

A fully imputed interim 2020 cash dividend of 9.5 cents per share (a gross amount of 13.2 cents per share) was declared on 9 December 2020 and paid on 15 January 2021. Our expectation is to declare a final fully imputed cash dividend in respect of 2020 in May 2021, for payment in July 2021. 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 but remain committed to the current annual cash dividend level of no less than 19 cents per share whilst the Group holds net cash, although at a level no greater than Underlying Net Profit for each year.

Capital Expenditure

Capital expenditure in 2020 was $24.4 million. Whilst this was $8.7 million higher than 2019 ($15.7 million), this spend was in line with expectations. Material expenditure included:

- Approximately 36 hectares of orchard redevelopment at Mr Apple during the 2020 winter ($4.9 million).
- Mr Apple Whakatu coolstore build ($11.5 million). An additional spend of approximately $2.5 million will be recognised in 2021.
- Additional spend on RSE accommodation upgrade at Mr Apple ($2.0 million).

	2020 $'000	2019 $'000
Operational capital expenditure		
Horticulture	4,276	3,139
Food Ingredients	471	191
Logistics	92	470
Other	6	10
Total operational capital expenditure	**4,845**	**3,811**
Growth capital expenditure		
Horticulture	19,524	11,863
Total growth capital expenditure	**19,524**	**11,863**
Total capital expenditure	**24,369**	**15,674**

Future capex is likely to be focussed on margin-improving automation and efficiencies in the Horticulture division, as the majority of our orchard redevelopment is now complete.

Outlook

We learned to operate in a 'new normal' in 2020, adapting to change and uncertainty as the year unfolded. The start of 2021 has not been without its own challenges, with inclement national weather events taking place over the key growing period and the continued disruption to global supply chains bringing ongoing delays in shipping and increased costs.

Within the Horticulture division, the 2021 apple harvest has begun with early fruit shipments made to Asia. Whilst lower fruit volumes are anticipated due to climatic events, we expect this to be partially offset by improved pricing. Mr Apple is also focused on opportunities to improve margins by accelerating automation initiatives, particularly in post-harvest operations.

Food Ingredients is expected to continue to take advantage of the growing global petfood market. We are excited for the future of this division and continue to actively pursue organic and external growth opportunities to diversify and expand its geographical reach, product range and protein offering.

In conclusion, we would like to thank all our management and staff, fellow Directors, suppliers, customers and other stakeholders for their collective support and assistance in our 109th year of trading. The entire team looks forward to 2021 and whatever challenges it may bring.

Tim Goodacre
Chair

Andy Borland
Managing Director

18 March 2021


MrAPPLE
2021

Championing a sustainable culture

Sustainability Report

Mr Apple staff taking part in iMove stretching.

In 2020, Scales navigated its way through its second pandemic - the first being the influenza pandemic in 1918. COVID-19's unpredictable nature initially brought about feelings of anxiety and disbelief but very quickly it became evident that our ability to be agile and dynamic allowed each of our essential businesses to make our workplaces and team members safe and secure. All of this happened at the very height of our busy season, with nearly 2,500 people employed.

The 2020 pandemic proved that, even in the face of extreme uncertainty and disruption, Scales management and staff could pull together, determined to weather the storm. We will continue that resilience and personal commitment into 2021 as a strong and united team.

Materiality Review

In our inaugural Sustainability Report in 2016, we identified a materiality index that was relevant to the Group at that time. In 2020, we identified the need to undertake updated stakeholder engagement and materiality exercises to ensure that our focus remained current.

Partnering with thinkstep-anz this involved:

- 6 internal and 9 external stakeholders' interviews to identify the material issues facing Scales.
- 41 stakeholders completing an online ranking survey.
- 11 internal stakeholders participating in a business impact ranking workshop.
- 13 participants in a 3-horizons future-focused risk review.

The outcome of this review was as shown on the right, and this will provide our focus for future periods.

Materiality Issues list

	2016	2020
PEOPLE	Employment Health and Safety Workplace Stability	Employee Attraction, Development and Retention RSE Scheme Succession Planning Health and Safety Labour Practices Culture and Values Diversity and Inclusion Community
ENVIRONMENT	Water Use Carbon Water Quality Energy Use Weather and Climate Biodiversity Fruit Waste Refrigeration Soil Health	Water Management Carbon and Energy Use Weather and Climate Biodiversity Waste Ethical Supply Chain
MARKETPLACE	Supplier Requirements Spray Use and Residues Food Safety Consumer Preferences	Spray Use and Residues Food Quality and Safety Consumer Preferences Market Access and Risk Intellectual Property Innovation Legal Compliance
CORPORATE		Business Continuity Corporate Governance ESG Strategy and Communication Brand Awareness

PEOPLE

People are at the heart of what we do

500+ Permanent staff members	~1,300 RSE workers
35 Operational sites	34% Permanent female staff Scales wide
~80% Of training incorporates a health and safety element	30% Female senior management staff

Pay Equality Review

During 2020 we undertook our first pay equality review with pleasing results.

It was found that Scales offers pay equity and, when comparing like-with-like, minimal further investigation was required. The CEOs of each business unit were keen to ensure that pay rates are reflective of role, experience, responsibility and tenure, not gender.

We will continue to monitor these on a regular basis.

Health and Safety

"Health and safety are an important and integral part of our everyday practices – safety to the core."

Health & Safety to the core

Health and safety culture continues to be a significant focus of the business, and our processes were tested during our COVID-19 response. Pleasingly, COVID-19 also highlighted connectivity between our businesses, with each business exhibiting a strong team culture. We believe this is reflective of the ingrained Scales philosophy.

Initiatives

A number of initiatives were undertaken or developed through the year. These included:

- A full cross-team critical risk review.
- Further development of the company-wide forklift training framework.
- Overall health and safety strategy.
- Guarding of risk areas and traffic management.
- Cross-company training, learning and auditing.
- Continued implementation of suggestions from the 2019 SafePlus assessment.
- Roll out of employee assistance programmes, in conjunction with Vitae, a workplace wellbeing and employee assistance provider.

The critical risk review identified new hazards, and sought solutions, with a team approach. This resulted in the identification of critical controls and non-negotiables, and the development of a risk scoring matrix to better understand the range of risks across a variety of scenarios.

An analysis of injuries continued to show a decline in the number and severity of injuries, due to a continued focus on injury prevention and management. Our Lost Time Injury rate remains static, with sprains continuing to contribute towards the most days off work. Several injury prevention measures are in place with our iMove (movement and mechanics) awareness training being undertaken throughout each business.

WorkSafe New Zealand interactions continued in 2020 with onsite inspections at Scales Logistics. Mr Apple also took part in an industry / WorkSafe harm-reduction pilot, and results of this are due in 2021.

Recognition

We are immensely proud to note that our Managing Director, Andy Borland, was the winner of the Leadership Award at the INFINZ Awards Dinner in October 2020. This award, assessed by an expert judging panel, focuses on key measures of financial performance as well as critical elements that deliver sustained performance over time, including leadership, building a strong and positive company culture and strong engagement with employees, customers and the community.

The award provides external recognition of the leadership skills and vision that Andy brings to the Group, verifying our own internal perception of his remarkable abilities.

CORPORATE

Governance and Ethics

It was important to the Board that, notwithstanding the logistical challenges presented by COVID-19, good governance practices should prevail throughout the year. As a result, we held a virtual Annual Shareholders' Meeting (ASM) in June 2020 – the first virtual ASM in over 100 years of trading. As was the case for many businesses, Zoom meetings became the norm, with Board meetings undertaken on this platform as and when needed.

Excellent leadership and teamwork was exhibited by all staff, with the entire Scales team rising to all challenges presented throughout the year.

We refreshed a number of our ethics policies during the year including:

- Anti-fraud, bribery and corruption.
- Travel and related expenses.
- Gifts and hospitality.

In addition, we launched a new policy on Sensitive Information (Private, Commercially Sensitive and Confidential). Training will be instigated throughout the Group during 2021.

MARKETPLACE

Marketplace

Technology

Our digital transformation strategy continued to be a focus, allowing us to incorporate cost savings and efficiencies within the business. Examples of these in 2020 included:

- A reduction in paper use and printing costs resulting in an almost 50 per cent reduction in the number of printers being required throughout the businesses.
- Production efficiencies and reduced forklift movements through more precise inventory control.

Certifications and Audits

We are aware of our impact on the marketplace and continue to also be aware of the needs and requests of our external stakeholders. Accordingly:

- We realigned our Good Agricultural Produce (GAP) certifications within Mr Apple.
- We undertook a GLOBAL GAP Risk Assessment on Social Practice (GRASP) audit of our supply chain for worker welfare practices.
- We have an ongoing focus on traceability within the business including a move, where possible, to digital options to streamline and fast track approvals .

Our Environment

Highlights

We are acutely aware of the impact of our business operations on the world and its environment – our actions now will have a long-lasting effect. As a result, we want to ensure that we manage our environmental footprint and be proud of the legacy that we leave.

Highlights from our work in 2020 included:

- A submission placed by Mr Apple as part of the Tūtaekurī, Ahuriri, Ngaruroro and Karamū (TANK) catchments process to secure water quality and quantity for the future within Hawke's Bay.
- Participation in an industry pilot for farm Environmental Plans as part of the TANK review.
- Continued hosting of a horticulture waste minimisation group (with local councils) identifying avenues for waste that would otherwise be destined for landfill.
- Ongoing work on carbon sequestration in respect of apple tree plantings, in partnership with Auckland University of Technology.
- An in-house climate change workshop to better understand future risks and opportunities.

In 2021, we will employ a sustainability advisor to assist us with our Environmental Plans. We believe that this will allow us to source alternative waste streams and ensure that each part of the business optimises its ability to reduce, reuse and recycle.

Polythene wrap being baled for collection by a recycling company.

Mr Apple Environmental Plan

We continued to align our business practices to our chosen United Nations Sustainable Development Goals.

Notwithstanding the disruption caused by the effects of COVID-19, we are thrilled with the progress we have made against our goals. Whilst we encountered an increase in fuel use, this increase was due to a variety of specific factors and was partially offset by the initatives noted. We remain committed to continuing our improvement journey and addressing areas of relative underperformance:

Goal	Initiatives	Change 2018 to 2020
Reduce paper use by 10 per cent per annum	Software improvements to eliminate paper use. Digital transformation strategy. Zoom capability in meeting rooms, allowing screen sharing rather than document printing.	60 per cent reduction
Reduce electricity consumption by 3 per cent by 2024	EECA audit recommendations. LED replacement strategy. Shut-down periods. Evaporator fan timers. Power factoring considerations.	11 per cent reduction
Reduce overall fuel use by 5 per cent by 2024	Reduced trucking movements. New trucking/tractor/vehicle fleet. EROAD monitoring. Change of petrol equipment to electric. Proactive maintenance.	11 per cent increase
Reduce waste to landfill by up to 30 per cent by 2024	Collaboration within industry and local businesses to achieve other avenues for waste. Installation of balers. Improved recycling facilities. Education campaigns. Removal of items where compostable or recyclable options are available.	48 per cent reduction

Toitū Envirocare carbonreduce Certification

Toitū carbonreduce programme and emission reduction initiatives are now into their third year, with an ongoing reduction in emission intensity.

Compared to our initial footprint in 2018:

- The overall carbon footprint for Mr Apple has increased by 3 per cent to 23,535 tonnes of carbon dioxide equivalent (tCO2e).
- Direct emissions from owned or controlled sources has increased by 11 per cent to 3,224 tCO2e. This was due to a variety of factors including increased fuel use for irrigation, a longer packing season and extended occupancy of the RSE accommodation.
- Indirect emissions from the generation of purchased energy has decreased by 11 per cent to 1,870 tCO2e.
- All other indirect emissions that occur in Mr Apple's value chain have increased by 4 per cent to 18,437 tCO2e.

Putting this in context, whilst our emissions have increased by 3 per cent, our production, number of TCEs exported and number of hectares planted have also increased. As a result, our emissions intensity has reduced, meaning we are more efficient in what we do vis-a-vis plantings and permanent staff:

- ~ 1 per cent efficiency gain (emission intensity reduction) per hectares planted.
- ~ 5.7 per cent efficiency gain (emission intensity reduction) per permanent employee.

Carbon Footprint

Our carbon footprint equates to total gross greenhouse gas (GHG) emissions per:

- All staff (at peak season) of 10.63 tCO2e (2018: 10.39 tCO2e).
- Bins tipped of 0.086 tCO2e (2018: 0.085 tCO2e).
- Cartons exported of 0.0046 tCO2e (2018: 0.0046 tCO2e).
- Hectares planted of 19.60 tCO2e (2018: 19.75 tCO2e).
- Permanent employees of 56.71 tCO2e (2018: 60.14 tCO2e).

Packaging strapping is now chipped and collected for repurposing.

Our TCFD Report

In this inaugural climate change report, we set out the 4 areas of the TCFD framework (which includes 11 disclosure recommendations) to explore what impacts climate change will have upon our business (risks and opportunities) and the direction in which we are going to address or adapt to them.

Over time our reporting will evolve to include scenario modelling, the strategies that we will wrap around those predictions and our increasing knowledge about our best future path.

THEME 1

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Our Board receives information on risks and opportunities via our Health & Safety and Sustainability Committee, through Board reports and via general updates. These are discussed at a Board level and also within the Audit and Risk Management Committee.

Climate change considerations are made at the risk-assessment level when evaluating strategy, budgets, KPI's, business plans, and mergers and acquisitions.

The Board also receives a copy of Toitū carbonreduce reports and the ongoing Environmental Plan in order to evaluate progress towards goals.

THEME 2

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

We focused primarily on Mr Apple in 2020 due to our direct control over the supply chain and operations of the business. In future, we will more closely analyse the potential third-party effects of climate change upon the supply chains of our other businesses.

The initial scenario contemplated an increase in world temperatures of 2 degrees centigrade. In future years we will extend that to a more extreme change and test our strategy against those risks and opportunities.

Work has been undertaken to categorise risks and opportunities:

- Defined as short (less than 2 years), medium (2 to 10 years) or long term (over 10 years).
- Categorised as low, medium or high risk.
- Potential impacts have been identified.
- Potential opportunities have been identified.

From this assessment, water availability and accessibility has been identified as the primary climate change risk to the business. However, this is seen as a medium to long-term risk as New Zealand (and, in particular, Hawke's Bay) currently presents favourable growing conditions with a good supply of water. Accordingly, current conditions do not present any material issues, but this will be closely monitored for all risks and opportunities.

Our evolving climate change awareness and understanding will be factored into our annual internal audit programme to ensure that strategies remain relevant and timely.

THEME 3

Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Mr Apple conducted an in-house climate-related risk workshop, working through NIWA predictions for low to high climatic changes that had the potential to affect supply both within horticulture and agriculture. The workshop outcomes were based on assumptions with institutional knowledge and experience, and did not produce a forecast or prediction model.

Although the management of climate-related risks are factored into well established and embedded strategies such as irrigation management and redevelopment opportunities, the materiality matrix refresh undertaken with thinkstep-anz also highlighted further areas of focus within water management and climate change in general.

Goals, as detailed in the Toitū carbonreduce scheme and Environmental Plan process, are monitored and reported upon to minimise our effect upon climate change and its effect upon us.

THEME 4

Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

As previously mentioned, our primary focus has been on Mr Apple and the organisational control we have over the growing, packing and storage environment. Going forward, our focus will be extended to the remaining Scales businesses.

Measurements within the business are validated by being part of the Toitū carbonreduce programme, for which we are independently audited annually against ISO 14064 (Greenhouse Gases)[1]. Through this, our Scope 1, 2 and 3 emissions are reported upon, together with targets for reduction, our progress in achieving those targets and acknowledgement of those that remain out of our control.

The following main risks, opportunities and anticipated impacts were identified at our in-house climate-related workshop.

	Risks	Current Strategies	Future Strategies	Opportunities
Water	Reduced access to sufficient, quality, water.	• Continued focus on water management, including maintenance of existing water rights. • Continued focus on our effect on water sources. • Active participation in water right negotiations and farm environmental plan development.	• Investigation of water storage possibilities. • Continued investment into more Sensortech and improved irrigation systems.	
Increased frequency and severity of weather events	Damage to crop and/or trees. Disruption to logistics chain.	• Geographical spread of orchards. • Investment in frost protection machines and optical grading technology. • Crop insurance providing cover for severe crop losses. • Use of canopy cover and planted shelter belts.	• Analysis of canopy covers. • Increased wind protection. • Canopy structure review.	
Rising average temperatures	Change in growing/ripening profile and orchard yields. Reduced crop quality due to sunburn and tree stress. Potential pest and disease profile change. Increased management costs e.g., additional sprays.	• Continued management focus on minimising sunburn and tree stress. • Continued targeted programme for pests and diseases. • Active membership on industry bodies.	• To understand extent of temperature change. • Review new growing regions for ideal climatic conditions.	• Reduced frosts. • Increased dry days improving pollination and potentially reducing pest and disease risk.
Reduced minimum / maximum temperature differences	Availability of overseas workers if climate-changes in their homelands impact thier ability to travel. Less fruit colour if nights are warmer.	• Continued engagement with the Government regarding the RSE scheme, and other work schemes. • Use of reflective cloth to increase fruit colour.	• To understand the extent of temperature differences and the impact on the crop.	

[1] https://www.iso.org/standard/66453.html

Structure builds confidence

Divisional Overview

This section provides a summary of each of our 3 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 non-cash, NZ IFRS and other adjustments.

Horticulture

Overview

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

- Mr Apple, 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.

During 2020, we operated 3 packhouses. Each of our packhouses are equipped with high-speed optical grading machines. Our fourth packhouse at Havelock North, which was decommissioned in 2019 and was being used as a storage and training facility, has subsequently been sold.

Mr Apple also operates 6 coolstores.

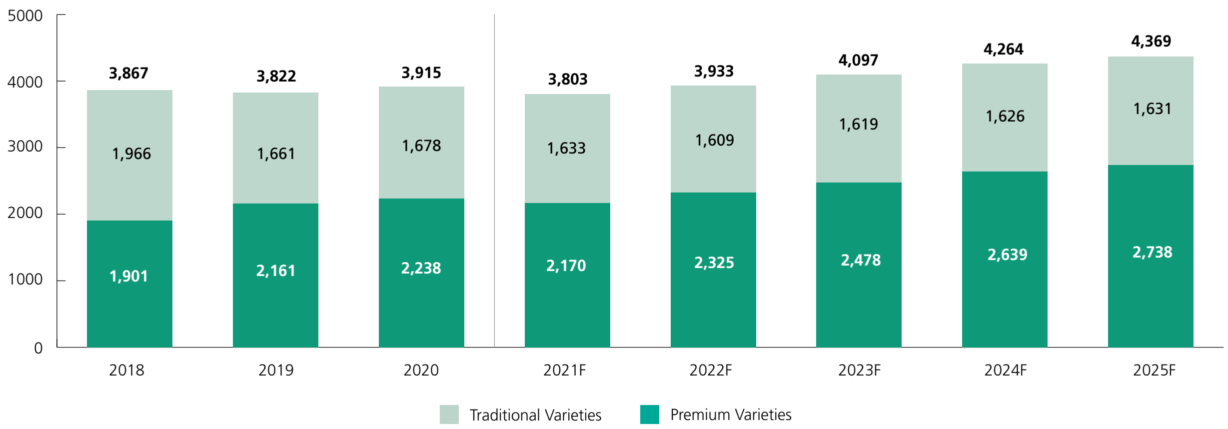
Orchard Redevelopment

During winter 2020, Mr Apple completed the second phase of its orchard redevelopment programme, planting and / or redeveloping around 36 hectares of orchard. This brings the total orchard redeveloped since 2008 to over 530 hectares, of which approximately 141 hectares were redeveloped to Dazzle™ and Posy™, premium brands in which we have a proprietary interest.

During this time, export sales to Asia and the Middle East increased from 20 per cent in 2007 to 62 per cent in 2020.

New planting techniques have also been adopted in recent years, significantly changing orchard management. A new '2-dimensional' structure is being embraced, which is expected to be more efficient to prune, thin, and pick. Accordingly, we anticipate higher average prices and yields will be achieved as these orchards reach commercial scale from 2023 onwards.

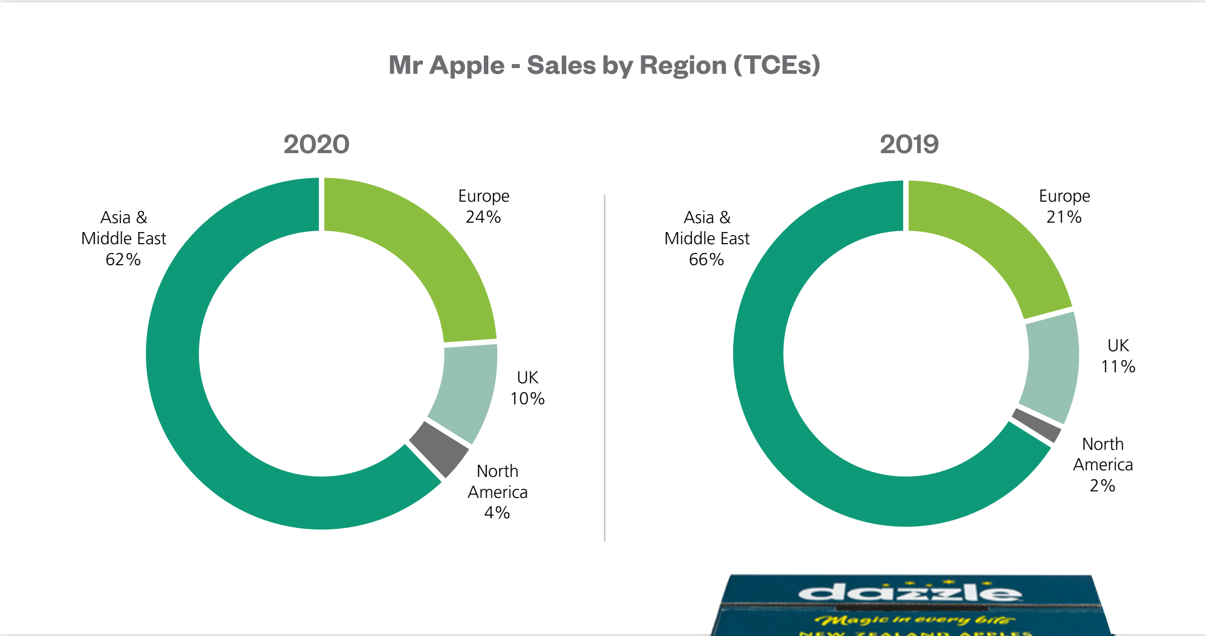
Mr Apple Own Export Volumes (TCE 000s)



The market prospects for our existing varieties are continually reviewed and a further phase of orchard redevelopment may be undertaken at a future time.

Markets

New Zealand's climate, resources, skills and clean, green image makes it an excellent location in which to grow apples. Our apples are sought after around the world and we sell apples to more than 160 customers in 40 countries.



The benefit of the division's diversified channels and markets was highlighted during 2020. Export volumes into Asia and the Middle East were adversely affected by the timing of lockdowns together with the resulting impact on logistics and purchasing patterns. However, sales into Europe and the UK were positive, with an increased throughput of produce and strong demand for traditional varieties.

Notwithstanding the difficulties of 2020, the Asia and Middle East markets accounted for 62 per cent of export sales, with sales to China continuing to represent approximately 17 per cent of Mr Apple's export volumes (2019: 17 per cent). This is underpinned by our ongoing in-market efforts, together with support from our cornerstone shareholder China Resources Ng Fung and increased participation in the market by PCNZ.

The launch of Dazzle™ in 2020 at high-end Chinese retailer, Hema.

Marketing Developments

Mr Apple is committed to being the number one preferred New Zealand apple brand in the international market place.

As such, we are investing time and resources into delivering innovative marketing activations and in-market branding initiatives, particularly in Asia and the Middle East, to support our new proprietary varieties, Dazzle™ and Posy™. Examples of these activities include:

- The launch of Dazzle™ in 2020 through high-end Chinese retailers such as Hema. Target promotions will be undertaken in both Vietnam and China in 2021.
- A flagship store on TMALL is expected to be operational in the first half of 2021. TMALL is a business-to-consumer online retail platform operated by the Alibaba Group, which allows international businesses to sell and market branded goods direct to consumers in China.

TMALL is an example of our efforts to develop and grow our retail and e-commerce sales channels and, with these channels now accounting for over half of all Mr Apple China sales in 2020, they represent a significant area of focus.

We are also delighted to note additional investment in this area, having recently appointed a senior marketing manager to the team.

Financial Performance and Key Operating Statistics

Summary Performance

The table below shows the financial performance of our Horticulture division for 2020 and 2019.

Horticulture Financial Performance

	2020 $'000	2019 $'000
Horticulture revenue	245,984	264,782
Underlying EBITDA		
Mr Apple	29,407	37,357
Fern Ridge	2,016	2,294
Underlying Horticulture EBITDA	**31,423**	**39,651**
Depreciation and amortisation	(9,524)	(8,781)
Underlying Horticulture EBIT	**21,899**	**30,870**
Horticulture EBITDA	**35,781**	**47,909**
Horticulture EBIT	**18,670**	**32,005**
Capital employed	202,020	187,768
ROCE	11%	17%

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 non-controlling interests. We recorded a non-controlling interest of $0.4 million (2019: $0.4 million) in our Group results reflecting their share of tax paid profit from Fern Ridge. A reconciliation of Underlying to Reported profit measures follows this Divisional Overview section.

The Horticulture division generated revenue of $246.0 million, down 7 per cent on 2019 ($264.8 million). This was due to the impact of lockdowns on the sale of produce into Asia and the Middle East, which affected pricing for those geographies.

Pricing, together with an increase in labour costs, impacted Horticulture's earnings, with Underlying EBITDA down by 21 per cent to $31.4 million (2019: $39.7 million). Underlying EBIT was down 29 per cent to $21.9 million (2019: $30.9 million). Details of initiatives to maintain or improve margins are provided later in this report.

Horticulture's ROCE decreased this year due to lower earnings and significant capital expenditure. However, returns for this division are expected to increase once redeveloped orchards reach maturity and the impact of margin initiatives take effect.

Orchard Statistics

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

		2020	2019	2018	2017	2016
Orchard						
Total planted orchard (at time of harvest)[1]	Ha.	1,186	1,158	1,149	1,142	1,042
Fully mature equivalent planted orchard	Ha.	1,028	1,023	1,057	1,043	922
Apples picked (Mr Apple orchards)	TCE 000s	5,119	4,841	5,090	4,434	4,360
Apples packed (Mr Apple + external growers (Hawke's Bay))	TCE 000s	4,858	4,747	4,739	4,354	4,150
Exported volume						
Mr Apple	TCE 000s	3,915	3,822	3,867	3,545	3,546
External growers[2]	TCE 000s	1,824	2,132	1,964	2,078	1,187
Total	**TCE 000s**	**5,739**	**5,953**	**5,831**	**5,622**	**4,733**
Mr Apple packout %		76%	79%	76%	80%	81%
Total NZ production	TCE 000s	22,199	21,755	20,687	18,956	19,346
Mr Apple own grown volume share of NZ production		17.6%	17.6%	18.7%	18.7%	18.3%

The division continued to exceed expectations around volumes. At 3.92 million TCEs of own-grown volumes, 2020 represented another record production year.

- With the average TCE holding 113 apples, almost 580 million apples were picked from Mr Apple's planted apple orchards.
- Gross production was 5.12 million TCEs from which 3.92 million TCEs were exported. This was a 2 per cent increase in export TCEs compared to prior year, and a 3 per cent increase compared to forecast.
- Together with our external grower volumes, the division sold 5.74 million TCEs. This was 4 per cent down on 2019 as Fern Ridge replaced a portion of its apple volumes with kiwifruit sales, which have not been included in the reported volumes.
- We continue to provide a significant contribution to the national apple crop, with production from our owned and leased orchards accounting for 17.6 per cent of New Zealand's apple exports (2019: 17.6 per cent).

[1] Planted orchard at the end of the year was 1,201 hectares.

[2] External grower volumes from 2017 onwards include Fern Ridge.

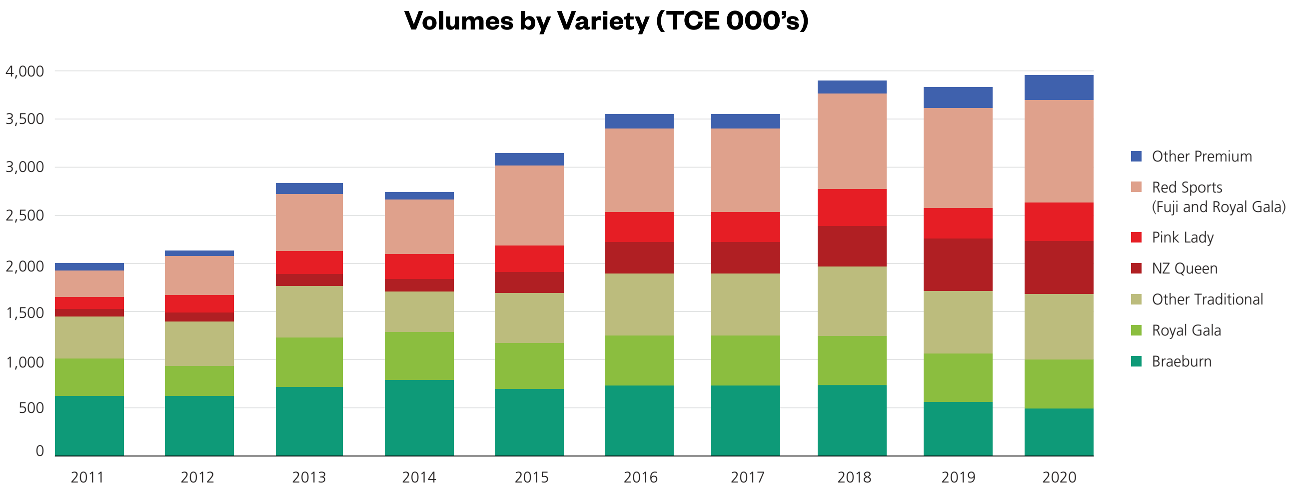
Volumes and Prices

Volumes and prices (on a NZD FOB basis) for 2020 and 2019 are noted below.

Volumes by Variety (TCE 000s)	**2020**	**2019**
Premium Varieties		
NZ Queen	534	538
Pink Lady	401	378
Red Sports (Fuji and Royal Gala)	1,049	1,046
Other	253	199
Total	**2,238**	**2,161**
Growth	4%	14%
% premium	57%	57%
Traditional Varieties		
Braeburn	506	561
Royal Gala	503	494
Other	669	606
Total	**1,678**	**1,661**
Growth	1%	(16%)
Total Mr Apple owned and leased orchards	**3,915**	**3,822**
Growth	2%	(1%)
Prices by Variety (NZD / TCE (FOB))		
Weighted average price for premium varieties	36.9	39.8
Weighted average price for traditional varieties	30.1	29.3
Total weighted average price	34.0	35.2

As noted above, premium varieties continue to be a focus for the division, with a 4 per cent increase in these volumes compared to 2019. We also delivered a 1 per cent increase in traditional varieties.

Our weighted average FOB price for premium varieties decreased by 7 per cent compared to 2019 due to some tightening of prices in the Asia markets as a result of the impact and timing of lockdowns. However, the decrease in pricing for premium varieties was partially offset by a firming up of prices in European markets.



Premium volumes account for around 57 per cent of all exports, in line with 2019. There were similar or increased volumes across most premium varieties, with significant percentage increases in our new varieties, including Dazzle™ and Posy™.

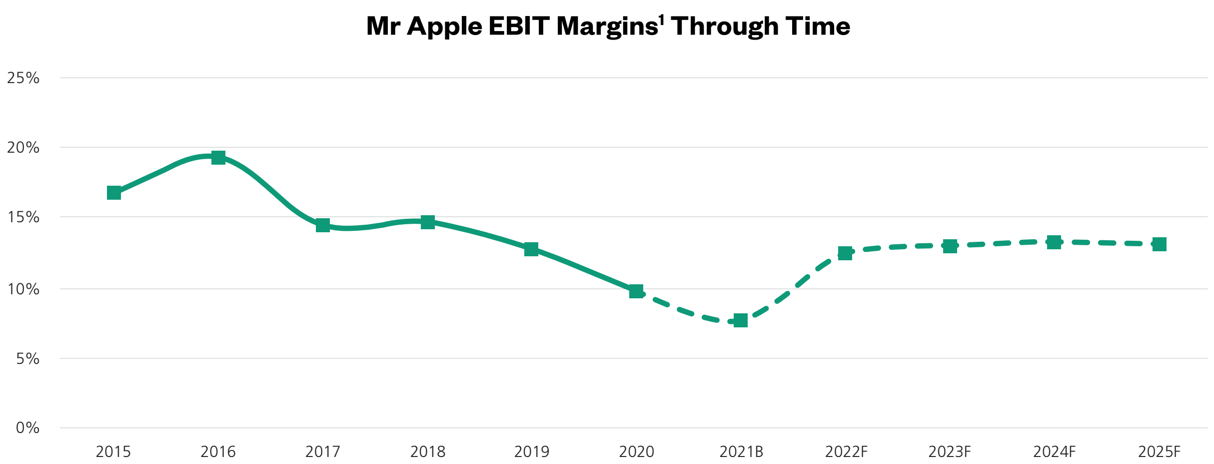
Margin Improvement

We acknowledge that we are currently experiencing headwinds in margin and, earlier this year, we provided details of a number of initiatives that we had identified in order to maintain or improve margins. This continues to be a focus.

The completion of Mr Apple's new coolstore at Whakatu is expected to provide both operational and logistic efficiencies. The coolstore was completed on time and on budget and has allowed us to sell our Havelock North packhouse. This permits greater centralisation of our post-harvest operations.

As previously mentioned, Mr Apple completed the second phase of its orchard redevelopment during winter 2020 resulting in over 140 ha of orchard planted and / or redeveloped between 2018 and 2020. Our focus over this phase of planting was in high-value varieties such as Posy™ and Dazzle™, together with incorporating new '2-dimensional' planting techniques. We anticipate higher prices and yields as these orchards reach commercial scale.

We also note that the environment for the availability and cost of labour has changed. Whilst retention of the RSE scheme at pre-COVID levels continues to be critical to our ability to pick and pack our harvest, it is our intention to accelerate automation initiatives particularly in the post-harvest area. We expect to commit to certain automation initiatives during 2021.



2021 Outlook

The outlook for Horticulture is positive at this time. The 2021 apple crop is of good fruit-size, brix and colour and sales activity remains supportive. Whilst Mr Apple anticipates lower fruit volumes as a result of national weather events over the key growing period, this is expected to be partially offset by higher in-market prices. Early fruit shipments to Asia have been well received and a lower national crop in Europe and the UK is expected to lower in-market supply.

We believe that the majority of challenges and additional costs being experienced domestically in 2021 will normalise and we expect margins to return to 2019 levels in 2022.

[1] Historic results have been adjusted to remove hail insurance proceeds in 2015.

Mr Apple Orchard Managers and Senior Teams


Applewaites Orchard


Blyth Orchard


Brookfield Orchard

Clive Orchard


Close Orchard


Kanuka Orchard

Kinross Orchard


Pacific Orchard


Pakowhai Orchard


Pilos Orchard


Rangihau Orchard

Scotland Orchard


Sorrento Orchard


Te Papa Orchard


Thornton Orchard

Food Ingredients

Overview

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

- Meateor NZ – 50 per cent ownership of a processor and marketer of petfood ingredients for the global petfood industry with processing plants in Whakatu and Dunedin.
- Meateor International – 100 per cent ownership of a supplier and marketer of petfood ingredients from Australia and other markets.
- Shelby – 60 per cent ownership of a US procurer, processor and marketer of ingredients for the petfood industry.
- Profruit – 50 per cent ownership of a manufacturer of high quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay.

Food Ingredients Structure

Meateor Group

Meateor NZ*	Meateor International**	Shelby**	Profruit*
Petfood ingredient processor and marketer, New Zealand (50%)	Petfood ingredient supplier, Australia & other markets (100%)	Petfood ingredient procurer, processor and marketer, USA (60%)	Juice concentrate processor, New Zealand (50%)

* Equity accounted.
** Fully consolidated into Scales' financial results, with Shelby non-controlling interest of $5.2 million deducted from NPAT (2019: $3.1 million).

Emergency Stop Buttons at Meateor's New Zealand plants, installed following health and safety reviews.

Operational and Financial Performance

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

Food Ingredients

		2020	2019
Key Operational Metrics			
Food Ingredients volume sold	MT	115,739	110,970
Juice concentrate sold	litres 000s	6,544	6,170
Financial Performance		**$'000**	**$'000**
Food Ingredients revenue		173,694	155,077
Underlying Food Ingredients EBITDA		**23,051**	**13,486**
Depreciation and amortisation		(1,045)	(1,018)
Underlying Food Ingredients EBIT		**22,006**	**12,468**
Food Ingredients EBITDA		**21,872**	**32,921**
Food Ingredients EBIT		**20,764**	**31,842**
Capital employed		72,070	79,347
ROCE		29%	16%

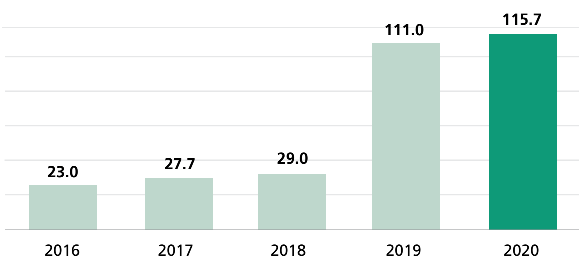
NB: A reconciliation of Underlying to Reported profit measures follows this Divisional Overview section.

Operational Summary

Volumes of petfood ingredients sold increased by 4 per cent to 115,739 MT (2019: 110,970 MT). Part of the increase in demand can be attributed to a growth in global petfood demand as a result of increased pet ownership and adoption rates through the pandemic. However, we believe that other factors, such as humanisation of pets, have also contributed to the increase.

To help satisfy this demand, Shelby entered into a new third-party warehousing and processing agreement with a toll processor in Dodge City, Kansas. This brings the number of processing facilities at Shelby to 8 - its own facility in Amarillo, Texas, plus 7 toll processing facilities throughout the United States.

Petfood Ingredients Sold (MT 000s)



Profruit volumes also increased compared to last year, with volumes of 6.5 million litres, a 6 per cent increase (2019: 6.2 million litres). This was due to high fruit brix, good yields and increased retail demand.

Financial Summary

Food Ingredients delivered an exceptional result in 2020 with increases in both revenue and profitability. This reflected the benefit of its geographical and protein diversification strategies. Revenue was $173.7 million, a 12 per cent increase on prior year (2019: $155.1 million) whilst Underlying EBITDA was $23.1 million, an increase of 71 per cent (2019: $13.5 million).

Profruit also delivered a strong result, with our share of earnings being $2.0 million, in line with prior year (2019: $2.0 million).

Divisional Strategy and 2021 Outlook

Food Ingredients took a considerable step towards its long-run EBITDA target of $25 million and we believe it continues to be an attractive industry for investment. The global petfood industry shows no sign of slowing, with its market value expected to reach US$168.3 billion by 2029, compared to US$97 billion in 2019[1], a compound annual growth rate of 6 per cent.

Our global strategy is to be a key provider of petfood ingredients to a wide range of international brands. Whilst travel restrictions during 2020 limited our ability to both pursue acquisition opportunities and to develop new supply and offtake relationships, we continue to actively analyse and review organic and transactional opportunities to expand our geographical presence and protein offering.

We are excited for the future of Food Ingredients and the team are working hard to create further improvements in performance in 2021 as the division takes advantage of market developments. We are hopeful that international travel will resume in 2021 to help move identified opportunities forward.

[1] https://www.prnewswire.com/news-releases/global-pet-food-market-to-show-an-impressive-cagr-of-6-from-2019-to-2029-with-valuation-expected-to-reach-us-168-3-bn-finds-tmr-300999294.html

Logistics

Overview and Divisional Developments

The services of Scales Logistics include:

- Ocean freight services to exporters and importers of perishable products, with offices in Auckland, Christchurch, Tauranga, Hawke's Bay and Melbourne.
- Air freight services, including purpose-built chiller and warehousing facilities, based in Christchurch.

Operational and Financial Performance

The key operational metrics and summarised financial performance for the Logistics division for 2020 and 2019 are shown below.

Logistics

		2020	2019
Key Operational Metrics			
Ocean freight volume	TEUs	35,502	39,438
Airfreight volume	MT	5,656	6,184
Financial Performance		**$'000**	**$'000**
Logistics revenue		77,917	87,076
Underlying Logistics EBITDA		**3,443**	**3,302**
Depreciation and amortisation		(230)	(364)
Underlying Logistics EBIT		**3,214**	**2,938**
Logistics EBITDA		**4,215**	**4,058**
Logistics EBIT		**3,392**	**3,111**
Capital employed		3,881	3,381
ROCE		89%	70%

NB: A reconciliation of Underlying to Reported profit measures follows this Divisional Overview section.

Logistics produced a solid result in a year where activity was impacted by global supply chain disruptions due to COVID-19 and lockdowns. This caused a decrease in the volumes of both ocean and air freight managed by the division.

However, the impact of COVID-19 was lessened by the division's focus on the essential agribusiness sector. Whilst revenue was down 11 per cent to $77.9 million (2019: $87.1 million), Underlying EBITDA was up 4 per cent to $3.4 million (2019: $3.3 million).

2021 Outlook

It is expected that lower levels of stone fruit exports from the Otago region, together with continuing disruptions in global supply chains, will continue to impact Scales Logistics during 2021.

However, we remain optimistic about the future of the division and believe there will be opportunities to grow both organically and through acquisition.

Reconciliation of Underlying to Reported Profit Measures

The following table provides a reconciliation of Underlying profitability to Reported profitability for the Group and each division.

	Group		Horticulture	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Underlying EBITDA	**53,862**	**52,699**	**31,423**	**39,652**
Fair value gain on recognition of investment in joint venture	-	9,782	-	-
Gain on disposal of Meateor New Zealand business	-	9,782	-	-
Impairment of non-current assets	(4,311)	-	(4,311)	-
NZ IFRS 16 *Leases*	10,279	9,535	9,366	8,640
Equity settled employee benefits	(698)	(866)	-	-
Meateor NZ disposal - working capital adjustment	(500)	-	-	-
Change in fair value gain on apple inventory	(802)	(332)	(802)	(332)
Change in gross liability for non-controlling interests	(647)	(273)	106	(71)
Transaction costs	(443)	(397)	-	21
Share based payments	-	(77)	-	-
Reported EBITDA	**56,740**	**79,853**	**35,781**	**47,909**
Underlying EBIT	**42,984**	**42,453**	**21,899**	**30,870**
Fair value gain on recognition of investment in joint venture	-	9,782	-	-
Gain on disposal of Meateor New Zealand business	-	9,782	-	-
Impairment of non-current assets	(4,311)	-	(4,311)	-
NZ IFRS 16 *Leases*	1,978	1,711	1,779	1,518
Equity settled employee benefits	(698)	(866)	-	-
Meateor NZ disposal - working capital adjustment	(500)	-	-	-
Change in fair value gain on apple inventory	(802)	(332)	(802)	(332)
Change in gross liability for non-controlling interests	(647)	(273)	106	(71)
Transaction costs	(443)	(397)	-	21
Share based payments	-	(77)	-	-
Reported EBIT	**37,561**	**61,783**	**18,670**	**32,005**
Underlying Net Profit	**33,764**	**36,399**	**15,431**	**22,206**
Gain on disposal of Polarcold	-	73,002	-	-
Interest on settlement of Polarcold, net of tax	-	(4,131)	-	-
Fair value gain on recognition of investment in joint venture	-	9,782	-	-
Gain on disposal of Meateor New Zealand business	-	9,782	-	-
Impairment of non-current assets	(4,311)	-	(4,311)	-
NZ IFRS 16 *Leases*, net of tax	(722)	(982)	(634)	(879)
Equity settled employee benefits	(698)	(866)	-	-
Meateor NZ disposal - working capital adjustment	(500)	-	-	-
Change in fair value gain on apple inventory	(802)	(332)	(802)	(332)
Change in gross liability for non-controlling interests	(647)	(273)	106	(71)
Transaction costs	(443)	(357)	-	56
Share based payments	-	(77)	-	-
Taxation effect	941	(370)	1,432	93
Reported Net Profit	**26,581**	**121,577**	**11,221**	**21,038**

Food Ingredients		Logistics		Corporate and eliminations	
2020	**2019**	**2020**	**2019**	**2020**	**2019**
$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
23,051	**13,486**	**3,443**	**3,302**	**(4,056)**	**(3,741)**
-	9,782	-	-	-	-
-	9,782	-	-	-	-
-	-	-	-	-	-
74	73	772	756	67	66
-	-	-	-	(698)	(866)
(500)	-	-	-	-	-
-	-	-	-	-	-
(753)	(201)	-	-	-	-
-	-	-	-	(443)	(418)
-	-	-	-	-	(77)
21,872	**32,921**	**4,215**	**4,058**	**(5,128)**	**(5,035)**
22,006	**12,468**	**3,214**	**2,938**	**(4,135)**	**(3,824)**
-	9,782	-	-	-	-
-	9,782	-	-	-	-
-	-	-	-	-	-
11	11	178	173	10	9
-	-	-	-	(698)	(866)
(500)	-	-	-	-	-
-	-	-	-	-	-
(753)	(201)	-	-	-	-
-	-	-	-	(443)	(418)
-	-	-	-	-	(77)
20,764	**31,842**	**3,392**	**3,112**	**(5,265)**	**(5,175)**
18,471	**11,186**	**2,284**	**2,009**	**(2,422)**	**998**
-	-	-	-	-	73,002
-	-	-	-	-	(4,131)
-	9,782	-	-	-	-
-	9,782	-	-	-	-
-	-	-	-	-	-
(5)	(6)	(80)	(92)	(3)	(5)
-	-	-	-	(698)	(866)
(500)	-	-	-	-	-
-	-	-	-	-	-
(753)	(201)	-	-	-	-
-	-	-	-	(443)	(414)
-	-	-	-	-	(77)
(491)	(485)	-	-	-	22
16,722	**30,057**	**2,204**	**1,917**	**(3,566)**	**68,564**

Team effort

Leadership Profiles

Board of Directors (as at 19 March 2021)

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 over 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 kiwifruit 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 and President of Nagambie Lakes Tourism and Commerce Incorporated. 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 Rabobank New Zealand Limited. Andy is a member of Scales' Finance and Treasury Committee and Scales' Health & Safety and Sustainability 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, and is Deputy Chair of the Canterbury Hockey Association. Nick is Chair of Scales' Health & Safety and Sustainability 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. Mark is also a Director of Evergreen Partners Limited. Mark is Chair of Scales' Nominations and Remuneration Committee and of 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 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 in 2019. He is a Director of China Resources Ng Fung Limited, which holds a 15.13% 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. Tomakin is a Director of New Zealand King Salmon Investments Limited. He has extensive experience in internal and external auditing, finance and accounting, mergers and acquisitions, regulatory and compliance, and as a company secretary.

Nadine was appointed to the Board in 2019. Nadine has extensive horticulture and wider primary industry management experience from a number of previous roles, including as the former CEO of Oha Honey LP. Nadine also brings experience from a wide variety of governance and advisory roles, including as a former member of the Primary Sector Council, and as the former Chair of New Zealand Apples & Pears Incorporated. Nadine is a member of Scales' Health & Safety and Sustainability Committee.

Management Profiles

Andy Borland, Managing Director

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

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.

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 third generation of family involvement in the sector, following in the footsteps of both his father and grandfather.

Tim Harty, General Manager Meateor Pet Foods

Tim was appointed General Manager at the inception of the JV with Alliance in 2019. Tim has had a 20 year career in the export meat industry in marketing and operational roles, both in New Zealand and overseas.

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 Group role in 2017. Prior to that Karen was the Health & Safety and Compliance Manager for Mr Apple, where she has worked for 16 years. In 2019 Karen also took on the role as a Director of New Zealand Apples & Pears Incorporated.

Chantelle Ramage, General Manager Profruit

Chantelle has been with Profruit for 14 years, including 12 as General Manager. Prior to that Chantelle held Production Manager and Technical Manager roles with the company. Chantelle graduated from Lincoln University with a Bachelor of Science, majoring in Food.

Kent Ritchie, CEO Scales Logistics

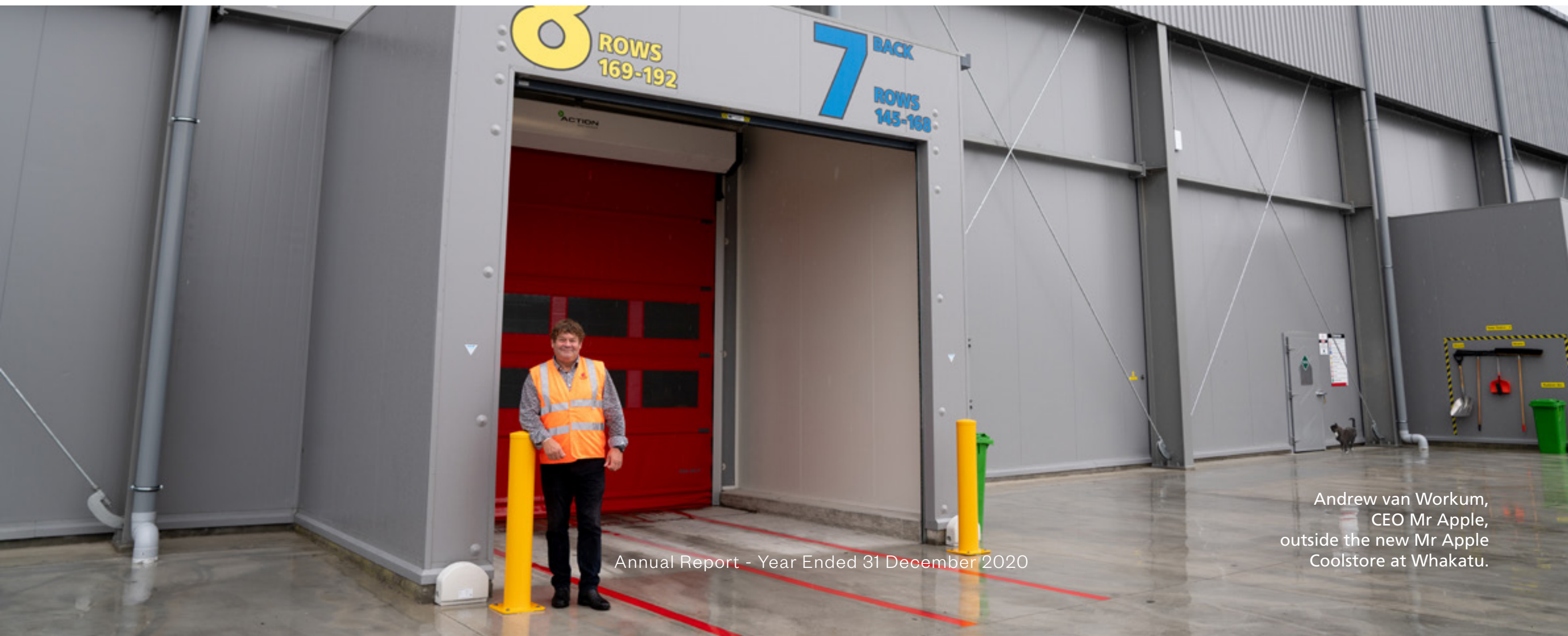
Kent joined Scales in 1998, and has spent over 30 years in the shipping industry. He has been involved in setting up shipping services from New Zealand, has experience in all aspects of the transport industry and has led Scales' expansion into the logistics arena.

John Sainsbury, CEO Meateor Group

John has been with Meateor in various management roles for the last 19 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, and CEO of Meateor Group during 2019.

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.



Andrew van Workum, CEO Mr Apple, outside the new Mr Apple Coolstore at Whakatu.

Financial Statements

Contents

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	NOTE	2020 $'000	2019 $'000
Continuing operations			
Revenue	B1	470,709	484,609
Cost of sales	B2	(366,800)	(383,126)
		103,909	**101,483**
Administration and operating expenses	B2	(44,382)	(43,965)
Revaluation of apple trees and buildings	C1	(4,311)	-
Share of profit of entities accounted for using the equity method	C3	2,224	2,997
Fair value gain on recognition of investment in joint venture		-	9,782
Gain on disposal of Meateor New Zealand business		-	9,782
Other income	B3	1,645	421
Other losses	B3	(2,345)	(647)
EBITDA		**56,740**	**79,853**
Amortisation		(584)	(592)
Depreciation	C1	(10,294)	(9,654)
Depreciation of right of use asset	G2	(8,301)	(7,824)
EBIT		**37,561**	**61,783**
Finance revenue		2,584	2,834
Finance cost	B4	(1,915)	(3,549)
Finance cost of lease liability	G2	(2,981)	(3,075)
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		**35,249**	**57,993**
Income tax expense	B5	(8,668)	(9,418)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**26,581**	**48,575**
Profit from discontinued operations (net of tax)		-	73,002
PROFIT FOR THE YEAR		**26,581**	**121,577**
Profit for the year from continuing operations is attributable to:			
Equity holders of the Company		21,025	45,000
Non-controlling interests		5,556	3,575
		26,581	**48,575**

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

	NOTE	2020 $'000	2019 $'000
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Basic earnings per share (cents):			
Continuing operations	D5	15.0	32.1
Discontinued operations	D5	-	52.1
Total	D5	15.0	84.2
Diluted earnings per share (cents):			
Continuing operations	D5	14.9	32.0
Discontinued operations	D5	-	51.9
Total	D5	14.9	83.9

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Consolidated Statement of Comprehensive Income (continued)

for the year ended 31 December 2020

	NOTE	2020 $'000	2019 $'000
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Gain on cash flow hedges		20,861	6,496
Income tax relating to cash flow hedges		(5,841)	(1,819)
Share of other comprehensive income of joint ventures	C3	708	209
Income tax relating to share of other comprehensive income of joint ventures		(198)	(58)
Foreign exchange (loss) on translating foreign operations		(784)	(125)
		14,746	**4,703**
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		9,133	11,117
Income tax relating to buildings		(448)	(818)
Revaluation of apple trees		(31)	1,431
Income tax relating to apple trees		9	(401)
Remeasurement of net defined benefit liability		(440)	-
Income tax relating to remeasurement of net defined benefit liability		67	-
		8,290	**11,329**
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**23,036**	**16,032**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**49,617**	**137,609**
Total comprehensive income for the year attributable to:			
Equity holders of the Company		44,374	134,034
Non-controlling interests		5,243	3,575
		49,617	**137,609**

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2020

	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 2019		**94,184**	**71,999**	**80,109**	**246,292**	**3,581**	**249,873**
Profit for the year		-	-	118,002	118,002	3,575	121,577
Other comprehensive income for the year		-	16,032	-	16,032	-	16,032
Total comprehensive income for the year		-	16,032	118,002	134,034	3,575	137,609
Reclassification of revaluation reserve	D2	-	(25,912)	25,912	-	-	-
Recognition of share-based payments	D2	-	866	-	866	-	866
Shares fully vested	D1, D2	1,089	(474)	(139)	476	-	476
Dividends	D3	-	-	(26,654)	(26,654)	(3,167)	(29,821)
Balance at 31 December 2019		**95,273**	**62,511**	**197,230**	**355,014**	**3,989**	**359,003**
Profit for the year		-	-	21,025	21,025	5,556	26,581
Other comprehensive income for the year		-	23,349	-	23,349	(313)	23,036
Total comprehensive income for the year		-	23,349	21,025	44,374	5,243	49,617
Reclassification of revaluation reserve	D2	-	1,093	(1,093)	-	-	-
Reclassification of pension reserve	D2	-	(341)	341	-	-	-
Recognition of share-based payments	D2	-	698	-	698	-	698
Shares fully vested	D1, D2	1,098	(536)	(165)	397	-	397
Dividends	D3	-	-	(26,716)	(26,716)	(4,594)	(31,310)
Balance at 31 December 2020		**96,371**	**86,774**	**190,622**	**373,767**	**4,638**	**378,405**

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Consolidated Statement of Financial Position
as at 31 December 2020

	NOTE	2020 $'000	2019 $'000
EQUITY			
Share capital	D1	96,371	95,273
Reserves	D2	86,774	62,511
Retained earnings	D2	190,622	197,230
Equity attributable to Scales Corporation Limited shareholders		**373,767**	**355,014**
Equity attributable to non-controlling interests		4,638	3,989
TOTAL EQUITY		**378,405**	**359,003**
CURRENT ASSETS			
Cash and bank balances		47,418	18,632
Term deposits		104,632	142,000
Trade and other receivables	E1	19,452	20,593
Current tax assets		-	164
Other financial assets	E2	12,688	4,571
Unharvested agricultural produce	C2	24,022	21,619
Inventories	C5	25,805	26,422
Prepayments		3,899	3,482
		237,916	**237,483**
Assets held for sale	F2	2,550	-
TOTAL CURRENT ASSETS		**240,466**	**237,483**
NON-CURRENT ASSETS			
Property, plant and equipment	C1	181,311	165,741
Investments accounted for using the equity method	C3	26,154	24,973
Goodwill	C4	41,905	43,784
Other financial assets	E2	18,143	7,117
Computer software		354	807
Right of use asset	G2	77,877	78,775
TOTAL NON-CURRENT ASSETS		**345,744**	**321,197**
TOTAL ASSETS		**586,210**	**558,680**

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Consolidated Statement of Financial Position (continued)

as at 31 December 2020

	NOTE	2020 $'000	2019 $'000
CURRENT LIABILITIES			
Bank overdrafts		1,384	1,188
Trade and other payables	E3	25,117	19,843
Dividend declared	D3	13,359	13,328
Borrowings	E4	860	-
Current tax liabilities		1,593	2,842
Other financial liabilities	E5	4,300	4,377
Lease liability	G2	10,053	9,427
TOTAL CURRENT LIABILITIES		**56,666**	**51,005**
NON-CURRENT LIABILITIES			
Borrowings	E4	52,199	54,551
Deferred tax liabilities	B5	25,596	19,442
Defined benefit plan net liability		632	-
Other financial liabilities	E5	2,522	3,966
Lease liability	G2	70,190	70,713
TOTAL NON-CURRENT LIABILITIES		**151,139**	**148,672**
TOTAL LIABILITIES		**207,805**	**199,677**
NET ASSETS		**378,405**	**359,003**

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows
for the year ended 31 December 2020

	NOTE	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		469,559	511,371
Dividends received		1,509	1,517
Interest received		4,042	791
		475,110	**513,679**
Cash was disbursed to:			
Payments to suppliers and employees		(407,074)	(442,424)
Interest paid		(4,896)	(6,624)
Income tax paid		(9,916)	(8,532)
		(421,886)	**(457,580)**
NET CASH PROVIDED BY OPERATING ACTIVITIES		**53,224**	**56,099**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from maturing term deposits		37,368	-
Advances repaid		382	722
Proceeds from sale of storage businesses		-	148,882
Proceeds from sale of Meateor New Zealand business	C3	-	15,000
Sale of property, plant and equipment and computer software		298	57
		38,048	**164,661**
Cash was applied to:			
Purchase of property, plant and equipment		(24,237)	(16,313)
Purchase of computer software		(131)	(495)
Purchase of financial instruments		-	(497)
Investment in term deposits		-	(142,000)
		(24,368)	**(159,305)**
NET CASH PROVIDED BY INVESTING ACTIVITIES		**13,680**	**5,356**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from seasonal and other facility borrowings	E4	3,955	79,000
		3,955	**79,000**

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows (continued)

for the year ended 31 December 2020

	NOTE	2020 $'000	2019 $'000
Cash was applied to:			
Dividends paid		(26,685)	(26,625)
Dividends paid to non-controlling interests		(4,594)	(3,167)
Repayments of lease liabilities		(7,300)	(6,459)
Repayments of seasonal facility borrowings	E4	(3,000)	(81,000)
Repayments of term facility borrowings	E4	-	(10,000)
Repayments of related party borrowings		-	(1,329)
		(41,579)	**(128,580)**
NET CASH USED IN FINANCING ACTIVITIES		**(37,624)**	**(49,580)**
NET INCREASE IN NET CASH		**29,280**	**11,875**
Net foreign exchange difference		(690)	(201)
Cash and cash equivalents at the beginning of the year		17,444	5,770
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**46,034**	**17,444**
Represented by:			
Cash and bank balances		47,418	18,632
Bank overdrafts		(1,384)	(1,188)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**46,034**	**17,444**

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Consolidated Statement of Cash Flows (continued)

for the year ended 31 December 2020

	NOTE	2020 $'000	2019 $'000
NET CASH GENERATED BY OPERATING ACTIVITIES			
Reconciliation of profit for the year to net cash generated by operating activities:			
Profit for the year		26,581	121,577
Non-cash items:			
Depreciation (including on right-of-use asset)		18,595	17,478
Revaluation of apple trees and buildings		4,311	-
Amortisation		584	592
Share of equity accounted results		(2,224)	(2,997)
Hedging instruments		(205)	639
Loss (gain) on disposal of property, plant and equipment		62	(57)
Share-based payments		698	1,000
Change in gross liability on put options		647	273
Deferred tax		(203)	941
Gain on disposal of storage businesses		-	(68,131)
Gain on disposal of Meateor New Zealand business	C3	-	(9,782)
Fair value gain on recognition of investment in joint venture	C3	-	(9,782)
Items classified as investing and financing activities:			
Dividends received from equity accounted entities		1,500	1,500
Changes in net assets and liabilities:			
Trade and other receivables		764	(579)
Unharvested agricultural produce		(2,403)	(1,072)
Inventories		28	3,540
Prepayments		(426)	(975)
Trade and other payables		5,960	(235)
Current tax assets and liabilities		(1,045)	2,169
NET CASH PROVIDED BY OPERATING ACTIVITIES		**53,224**	**56,099**

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 25 February 2021.

Tim Goodacre, Chair

Andy Borland, Managing Director

The notes to the financial statements on pages 54 to 85 form part of and should be read in conjunction with this statement.

Notes to the Financial Statements
for the year ended 31 December 2020

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 or the Group). 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 ventures. The principal activities of the Group are to grow apples, provide logistics services, export products, manufacture and trade food ingredients, provide insurance services to companies within the Group and operate 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;
- 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.
- Assessment of Group invesment in Meateor Pet Foods Limited Partnership for impairment in note C3.

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 ventures.

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.

Adoption of new and revised standards and interpretations; standards and Interpretations issued but not yet effective

All mandatory amendments and interpretations have been adopted in the current year. None had a material impact on these financial statements.

The Group has reviewed all Standards, Interpretations and Amendments to existing Standards in issue not yet effective and does not expect these 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.

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, Meateor Group Limited, Meateor US LLC, Shelby JV LLC Group (Shelby Cold Storage LLC, Shelby Exports Inc, Shelby Foods LLC, Shelby JV LLC, Shelby Properties LLC, Shelby Trucking LLC), 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 $'000	Food Ingredients $'000	Logistics $'000	Other $'000	Eliminations $'000	Total $'000
2020						
Total segment revenue	245,984	173,694	77,917	3,784	(30,670)	470,709
Inter-segment revenue	-	-	(28,082)	(2,588)	30,670	-
Revenue from external customers	**245,984**	**173,694**	**49,835**	**1,196**	**-**	**470,709**
Gain (loss) on sale of non-current assets	46	-	(108)	-	-	(62)
Share of profit of entities accounted for using the equity method	-	2,224	-	-	-	2,224
Revaluation of apple trees and buildings	(4,311)	-	-	-	-	(4,311)
EBITDA	**35,781**	**21,872**	**4,215**	**(5,128)**	**-**	**56,740**
Amortisation expense	(475)	-	(43)	(66)	-	(584)
Depreciation expense	(9,049)	(1,045)	(187)	(13)	-	(10,294)
Depreciation of right of use asset	(7,586)	(63)	(594)	(58)	-	(8,301)
Finance revenue	1	1	-	2,582	-	2,584
Finance costs	(36)	(32)	(28)	(1,819)	-	(1,915)
Finance cost of lease liability	(2,660)	(18)	(289)	(14)	-	(2,981)
Segment profit (loss) before income tax	**15,976**	**20,715**	**3,074**	**(4,516)**	**-**	**35,249**

Segment Reporting (continued)

	Horticulture $'000	Food Ingredients $'000	Logistics $'000	Other $'000	Eliminations $'000	Total $'000
Segment assets	329,055	103,793	17,867	135,495	-	586,210
Segment liabilities	122,838	19,082	11,870	54,015	-	207,805
Segment carrying value of investment accounted for using the equity method	-	26,154	-	-	-	26,154
Segment acquisition of property, plant and equipment and computer software	23,800	471	92	6	-	24,369
2019 (continuing operations)						
Total segment revenue	264,782	155,077	87,076	3,461	(25,787)	484,609
Inter-segment revenue	-	-	(22,948)	(2,839)	25,787	-
Revenue from external customers	**264,782**	**155,077**	**64,128**	**622**	**-**	**484,609**
Gain on sale of non-current assets	45	-	-	1	-	46
Share of profit of entity accounted for using the equity method	-	2,997	-	-	-	2,997
EBITDA	**47,909**	**32,921**	**4,058**	**(5,035)**	**-**	**79,853**
Amortisation expense	(486)	(1)	(36)	(69)	-	(592)
Depreciation expense	(8,296)	(1,016)	(328)	(14)	-	(9,654)
Depreciation of right of use asset	(7,122)	(62)	(583)	(57)	-	(7,824)
Finance revenue	19	10	3	2,802	-	2,834
Finance costs	(16)	(23)	(33)	(3,477)	-	(3,549)
Finance cost of lease liability	(2,739)	(20)	(301)	(15)	-	(3,075)
Segment profit (loss) before income tax	**29,269**	**31,809**	**2,780**	**(5,865)**	**-**	**57,993**
Segment assets	293,249	101,091	18,619	145,721	-	558,680
Segment liabilities	112,426	11,110	12,269	63,872	-	199,677
Segment carrying value of investment accounted for using the equity method	-	24,973	-	-	-	24,973
Segment acquisition of property, plant and equipment and computer software	15,002	191	470	10	-	15,673

Non-current assets other than financial instruments by geographical location

	New Zealand		Australia		USA		Total	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Property, plant and equipment	177,517	161,102	40	49	3,754	4,590	181,311	165,741
Investments accounted for using the equity method	26,154	24,973	-	-	-	-	26,154	24,973
Goodwill	16,188	16,188	-	-	25,717	27,596	41,905	43,784
Computer software	354	807	-	-	-	-	354	807
Right of use asset	77,294	78,080	192	215	391	480	77,877	78,775

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

	2020 $'000	**2019 $'000**
By nature:		
Revenue from the sale of goods	402,194	390,855
Revenue from the rendering of services	64,357	90,280
Fees and commission	59	89
Net foreign exchange loss	(730)	(127)
Rental revenue	4,829	3,512
	470,709	**484,609**
By market:		
New Zealand	81,549	107,465
Asia	128,582	153,301
Europe	75,041	64,621
North America	184,894	154,994
Other	643	4,228
	470,709	**484,609**
By segment and type:		
Horticulture - sale of agricultural produce	229,033	237,584
Horticulture - agricultural produce related services	12,133	23,695
Horticulture - other	4,818	3,503
Food ingredients - sale of pet food ingredients	171,144	152,963
Food ingredients - other	2,550	2,114
Logistics services	49,835	64,128
Other	1,196	622
	470,709	**484,609**

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 ultimate 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 the 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 a 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 at 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

	2020 $'000	2019 $'000
Auditor's remuneration:		
Deloitte Limited (New Zealand):		
Audit of the financial statements:		
Audit of the annual financial statements	175	168
Review of interim financial statements	48	45
Other assurance services:		
Audit of solvency certificate for Selacs Insurance Limited	6	6
Sheehan & Company CPA, PC (United States):		
Group reporting audit	92	69
Review of subsidiary financial statements	31	30

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

	2020 $'000	2019 $'000
Bad debts incurred (recovered)	251	(168)
Change in fair value adjustment to unharvested agricultural produce	802	332
Change in inventories	252	3,540
Direct expenses	58,852	65,987
Directors' fees	596	555
Donations	45	13
Electricity	2,778	2,774
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,254	1,401
Post employment benefits - defined benefit plans	508	409
Salaries, wages and related benefits	79,809	73,754
Other employee benefits	698	743
Grower payments	49,017	62,376
Insurance	3,609	3,589
Management fees	48	97
Materials and consumables	112,758	102,877
Ocean and air freight	72,056	81,154
Operating lease expenses	2,960	2,089
Packaging	19,225	18,940
Provision for write-down of inventories	377	1,168
Repairs and maintenance	4,935	5,143
	411,182	**427,091**
Disclosed as:		
Cost of sales	366,800	383,126
Administration and operating expenses	44,382	43,965
	411,182	**427,091**

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.

B3. Other Income and Losses

	2020 $'000	2019 $'000
Dividends	9	1
(Loss) gain on disposal of property, plant and equipment	(62)	46
Reinsurance income (Note G4)	1,636	374
Insurance claims expense paid (Note G4)	(1,636)	(374)
Remeasurement of gross liability to non-controlling interest	(647)	(273)
	(700)	**(226)**
Disclosed as:		
Other income	1,645	421
Other losses	(2,345)	(647)
	(700)	**(226)**

B4. Finance Cost

	2020 $'000	2019 $'000
Interest on loans	1,867	3,298
Other interest	12	123
Bank facility fees	36	128
	1,915	**3,549**

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	8,827	8,795
Current tax expense from discontinued operations	-	2,483
Total current tax expense	**8,827**	**11,278**
Adjustments recognised in the current year in relation to the current tax of prior years	-	(74)
Deferred tax (income) expense relating to the origination and reversal of temporary differences	(159)	438
	8,668	**11,642**
Total income tax expense recognised in profit or loss from continuing operations	8,668	9,418
Total income tax expense recognised in profit or loss from discontinued operations	-	2,224
Total income tax expense recognised in profit or loss	**8,668**	**11,642**

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	35,249	57,993
Profit from discontinued operations	-	75,226
Total profit before tax	**35,249**	**133,219**
Income tax expense calculated at applicable corporate tax rates	9,590	37,128
Non-assessable income	(1,698)	(26,278)
Non-deductible expenses	472	688
Over provision of income tax in previous year - current tax	-	(73)
Under provision of income tax in previous year - deferred tax	304	177
	8,668	**11,642**

The tax rates used in the above reconciliation are the corporate tax rate of 28% payable by New Zealand companies under New Zealand tax law, 30% payable by Australian companies under Australian tax law and 25.5% payable by US entities under US tax law (being federal tax 21% and weighted average state tax 4.5%).

B5. Taxation (continued)

	Opening balance $'000	Charged to profit or loss $'000	Charged to other comprehensive income $'000	Closing balance $'000
Deferred tax liability				
Taxable and deductible temporary differences arise from the following:				
31 December 2020				
Deferred tax liabilities (assets):				
Trade and other receivables	(23)	(141)	-	(164)
Unharvested agricultural produce	6,048	671	-	6,719
Property, plant and equipment and computer software	12,820	(745)	439	12,514
Trade and other payables	(703)	(45)	-	(748)
Lease liability and right-of-use asset (NZ IFRS 16)	(381)	(295)	-	(676)
Other financial assets and liabilities, joint ventures and pension plan	1,681	298	5,972	7,951
Net deferred tax liability	**19,442**	**(257)**	**6,411**	**25,596**
31 December 2019				
Deferred tax liabilities (assets):				
Trade and other receivables	(140)	117	-	(23)
Unharvested agricultural produce	5,558	490	-	6,048
Property, plant and equipment and computer software	10,833	768	1,219	12,820
Trade and other payables	(467)	(236)	-	(703)
Lease liability and right-of-use asset (NZ IFRS 16)	-	(381)	-	(381)
Other financial assets and liabilities	(196)	-	1,877	1,681
Net deferred tax liability	**15,588**	**758**	**3,096**	**19,442**

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 2019	**86,669**	**31,600**	**67,686**	**11,964**	**2,014**	**199,933**
Additions	96	3,656	5,011	1,132	5,506	15,401
Disposals	-	-	(11,532)	(994)	-	(12,526)
Revaluation	10,020	(1,342)	-	-	-	8,678
Effect of foreign currency translation	(6)	-	(13)	-	(7)	(26)
Balance at 31 December 2019	**96,779**	**33,914**	**61,152**	**12,102**	**7,513**	**211,460**
Additions	6,712	1,970	3,771	1,569	10,215	24,237
Reclassified as held for sale	(3,148)	-	-	-	-	(3,148)
Disposals	-	-	(671)	(660)	-	(1,331)
Revaluation	7,693	(3,080)	-	-	-	4,613
Effect of foreign currency translation	(137)	-	(270)	(2)	10	(399)
Balance at 31 December 2020	**107,899**	**32,804**	**63,982**	**13,009**	**17,738**	**235,432**
Accumulated depreciation and impairment						
Balance at 1 January 2019	**-**	**-**	**40,447**	**8,900**	**-**	**49,347**
Depreciation expense	1,097	2,773	4,573	1,211	-	9,654
Disposals	-	-	(8,477)	(918)	-	(9,395)
Revaluation	(1,097)	(2,773)	-	-	-	(3,870)
Effect of foreign currency translation	-	-	(17)	-	-	(17)
Balance at 31 December 2019	**-**	**-**	**36,526**	**9,193**	**-**	**45,719**
Depreciation expense	1,440	3,049	4,585	1,220	-	10,294
Reclassified as held for sale	(598)	-	-	-	-	(598)
Disposals	-	-	(347)	(626)	-	(973)
Revaluation	(1,440)	(3,049)	-	-	-	(4,489)
Impairment on revaluation	2,471	1,840	-	-	-	4,311
Effect of foreign currency translation	-	-	(143)	-	-	(143)
Balance at 31 December 2020	**1,873**	**1,840**	**40,621**	**9,787**	**-**	**54,121**
Net book value						
As at 31 December 2019	96,779	33,914	24,626	2,909	7,513	165,741
As at 31 December 2020	**106,026**	**30,964**	**23,361**	**3,222**	**17,738**	**181,311**

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 2020 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 coolstores and packhouses) are potential market comparative rentals $5 - $283 per square metre (2019: $5 - $155) and the capitalisation rates of 7.6% - 11% (2019: 8.5% - 12%).

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 $135,000 per hectare (2019: $28,300 to $123,000).

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 $50,794,000 (31 December 2019: $48,077,405).

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 2020.

The market valuations completed by Boyd Gross were based on a discounted cash flows (DCF) analysis of forecast income streams and costs. They were 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 fair value of orchard land and buildings are deducted from the overall orchard valuation to give rise to the apple trees valuation.

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

	2020	**2019**
Production levels (gross tray carton equivalent (tce)) per hectare	2,277 - 7,105	3,495 - 6,021
Orchard gate returns per tce	$24.75 - $37.62	$25.00 - $38.00
Orchard costs per tce	$12.95 to $41.83	$15.31 - $28.34
Discount rate	14.84% - 17.84%	15.58% - 19.40%

C1. Property, Plant and Equipment (continued)

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.

The carrying amount of apple trees had it been recognised under the cost model is $16,673,000 (31 December 2019: $19,591,963).

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

	Total Hectares Planted	
	2020	**2019**
Premium varieties:		
NZ Queen	210	210
Pink Lady	121	123
Red sports (Fuji and Royal Gala)	265	259
Other premium	169	151
Traditional varieties:		
Braeburn	101	110
Royal Gala	177	176
Other traditional	158	153
	1,201	**1,182**

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

	2020	**2019**
	$'000	**$'000**
Balance at beginning of the year	21,619	20,547
Decrease due to harvest	(21,619)	(20,547)
Development expenditure	24,460	21,254
Fair value adjustment	(438)	365
Balance at end of the year	**24,022**	**21,619**

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:

	2020	**2019**
Production levels (tonnes per hectare per annum)	37 - 159	63 - 108
Orchard gate returns per tce	$22 to $48	$23 to $43
Risk adjusting discount rates	43% to 61%	53% to 71%

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

Details of each of the Group's material joint ventures at the end of the reporting period are as follows:

Joint ventures	Principal activity	Country of incorporation	Holding		Balance date
			2020	2019	
Profruit (2006) Limited	Trading company	New Zealand	50%	50%	31 December
Meateor Pet Foods Limited Partnership	Trading company	New Zealand	50%	50%	31 December

Summarised financial information in respect of the Group's joint ventures is set out below. The aggregate summarised financial information below represents amounts in joint ventures' financial statements prepared in accordance with NZ IFRS Standards.

	2020 $'000	2019 $'000
Current assets	35,738	31,110
Non-current assets	36,430	30,218
Current liabilities	(13,616)	(8,233)
Non-current liabilities	(6,245)	(3,149)
Net assets	**52,307**	**49,946**
Group's share in the net assets of equity accounted entities (50%)	26,154	24,973
Carrying amount of investment in equity accounted entities	**26,154**	**24,973**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	1,627	2,243
Current financial liabilities (excluding trade and other payables and provisions)	(2,441)	(1,340)
Non-current financial liabilities (excluding trade and other payables and provisions)	(2,790)	(3,114)
Revenue	61,541	54,892
Profit for the year after tax	4,446	5,994
Other comprehensive income attributable to the owners of the company	1,416	418
Total comprehensive income	**5,862**	**6,412**
The above profit for the year includes the following:		
Depreciation and amortisation	1,576	817
Interest expense	295	325
Income tax expense	1,559	1,542
Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:		
Share of profit before taxation	3,003	3,768
Share of income tax	(780)	(771)
Share of other comprehensive income (net of tax)	708	209
Share of net profit for the year and total comprehensive income	**2,931**	**3,206**
Carrying value at beginning of the year	24,973	5,213
Interest retained (foregone) in Meateor Pet Foods Limited Partnership	(250)	18,054
Dividend paid by Profruit (2006) Limited	(1,500)	(1,500)
Investment in equity accounted entities	**26,154**	**24,973**

C3. Investments Accounted for Using the Equity Method (continued)

The Group share of the guarantee of the Profruit (2006) Limited bank loan facilities is $1,096,301 (2019: $2,052,808).

In 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 paid $15 million to acquire a 50% interest in Meateor Food Limited's (a wholly owned subsidiary of the Group) New Zealand business and operations.

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

The LP 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 the LP.

A total $19.6 million gain was recognised, which included $9.8 million gain on sale of Meator New Zealand business to the LP and $9.8 million gain on fair value measurement of the interest in the LP.

A JV 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 JVs are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a JV 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 JV. Dividends or distributions received from a JV reduce the carrying amount of the investment in that JV in the Group financial statements. When the Group's share of losses of a JV exceeds the Group's interest in that JV, 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 JV.

An investment in a JV is accounted for using the equity method from the date on which the investee becomes a JV until the date it ceases to be a JV. On acquisition of the investment in a JV, 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.

Due to the recent performance of the LP being below expectations, the Directors have assessed the investment in the LP for impairment. The LP is governed by a separate board made up of representatives from the Group and Alliance. The LP Board has reviewed the performance of the business and adopted a budget and cash flow forecast, which was used to assess impairment.

The Directors of the Group have assessed the LP Board's approved forecast for 2021 and 2022, and growth assumptions for the following years, including the terminal growth rate, when considering the carrying value of the investment in the LP. The LP Board's forecast for 2021 and 2022 included a number of plans and assumptions designed to restore and grow profitability to expected levels. The Directors consider such assumptions to be reasonable in the circumstances.

The Directors determined the recoverable amount of the investment in the LP based on the value in use of the business which uses future cash flows covering a 5 year period based on the LP Board approved forecast.

The Directors concluded that there is no impairment of the investment in the LP as the recoverable amount exceeded the carrying value of the investment in the LP.

	$'000
Recoverable amount of Group's investment in the LP	20,790
Carrying value	19,956
Headroom	**834**

Key assumptions:	
Pre-tax discount rate	12.55%
Sales and cost of sales growth rate in years 1-5	4.50%
Overhead cost growth rate in years 1-5	1.50%
Terminal growth rate beyond year 5	1.90%

The pre-tax discount rate was determined based on the weighted average cost of capital which utilises past experience and external sources.

C3. Investments Accounted for Using the Equity Method (continued)

The sensitivity of the recoverable amount of the Group's investment in the LP to the reasonably possible changes is set out below:

	$'000 +0.5%	$'000 -0.5%
Pre-tax discount rate	(997)	1,095
Sales and cost of sales growth rate in years 1-5	1,136	(1,113)
Overhead cost growth rate in years 1-5	(143)	141
Terminal growth rate	499	(456)
	+10%	**-10%**
Forecast earnings	2,541	(2,541)

Changes in each key assumptions that would result in the recoverable amount equalling the carrying amount, assuming all other inputs remain unchanged, are set out below:

Pre-tax discount rate	Increase by 0.4%
Sales and cost of sales growth rate in years 1-5	Reduction by 0.4%
Overhead cost growth rate in years 1-5	Increase by 2.9%
Terminal growth rate	Reduction by 1.0%
Forecast earnings	Reduction by 2.9%

C4. Goodwill

	2020 $'000	2019 $'000
Gross carrying amount		
Balance at beginning of the year	43,784	43,875
Effect of foreign currency exchange differences	(1,879)	(91)
Balance at end of the year	**41,905**	**43,784**

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. Goodwill is tested for impairment annually, or more frequently if there are indications that goodwill might be impaired. For the purpose of impairment testing, goodwill has been allocated to the cash-generating units (CGUs) listed below which represent the lowest level at which the Directors monitor goodwill.

	2020 $'000	2019 $'000
Logistics	1,955	1,955
Mr Apple	14,233	14,233
Shelby	25,717	27,596
	41,905	**43,784**

As at 31 December 2020, 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 discounted cash flow and value in use calculation uses future cash flows covering a five year period based on a Board approved budget. The model was based on the following key assumptions:

	2020	2019
Pre-tax discount rates	10-13%	12-13%
Annual growth rates	2%	2-3%

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

	2020 $'000	2019 $'000
Finished goods	20,871	21,583
Other	4,934	4,839
	25,805	**26,422**

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 CGU to which the asset belongs.

A CGU 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 CGU 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 142,090,521 fully paid ordinary shares (2019: 141,579,238) less treasury stock of 1,580,229 shares (2019: 1,383,659 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	
	2020	**2019**
Fully paid ordinary shares		
Opening balance	141,579,238	141,103,597
Share Scheme - shares issued	511,283	475,641
Closing balance	**142,090,521**	**141,579,238**
Treasury stock		
Opening balance	1,383,659	1,195,664
Share Scheme - shares issued	511,283	475,641
Share Scheme - shares fully vested	(314,713)	(287,646)
Closing balance	**1,580,229**	**1,383,659**

The available subscribed capital of $46,072,206 (2019: $42,808,000) 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.

	2020	**2019**
	$'000	**$'000**
Movement in share capital related to share-based payments:		
Cash-settled share based payment scheme vested	-	134
Equity-settled employee benefit share scheme vested		
Interest-free loan became full recourse	397	342
Accumulated share option value reclassified from reserve into share capital	536	474
Accumulated dividends reclassified from retained earnings into share capital	165	139
	1,098	**1,089**

D2. Reserves

	Revaluation	Cash flow hedge	Share of joint ventures	Equity-settled employee benefits	Foreign exchange translation	Revaluation related to discontinued operations	Pension plan reserve	Total reserves
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2019	**44,540**	**250**	**-**	**1,248**	**49**	**25,912**	**-**	**71,999**
Other comprehensive income (loss)	11,329	4,677	151	-	(125)	-	-	16,032
Transfer to retained earnings	-	-	-	-	-	(25,912)	-	(25,912)
Recognition of share-based payments	-	-	-	866	-	-	-	866
Shares fully vested	-	-	-	(474)	-	-	-	(474)
Balance at 31 December 2019	**55,869**	**4,927**	**151**	**1,640**	**(76)**	**-**	**-**	**62,511**
Other comprehensive income (loss)	8,663	15,020	510	-	(784)	-	(60)	23,349
Transfer from retained earnings	1,093	-	-	-	-	-	(341)	752
Recognition of share-based payments	-	-	-	698	-	-	-	698
Shares fully vested	-	-	-	(536)	-	-	-	(536)
Balance at 31 December 2020	**65,625**	**19,947**	**661**	**1,802**	**(860)**	**-**	**(401)**	**86,774**

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 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 Share Scheme unless they remain in employment with the Group for a period of 3 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**
5 May 2017 - FY16A	5 May 2020	1.70	278,879	-	-	(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
30 April 2019 - FY18	30 April 2022	2.71	261,356	-	-	-	261,356
28 June 2019 - FY18R	28 June 2022	4.06	214,285	-	-	-	214,285
30 April 2020 - FY19	30 April 2023	3.20	-	301,657	-	-	301,657
28 June 2020 - FY19R	28 June 2023	4.19	-	209,626	-	-	209,626
Total			**1,383,659**	**511,283**	**-**	**(314,713)**	**1,580,229**

D2. Reserves (continued)

The weighted average share price for shares that vested on 5 May 2020 was $4.80.

The shares issued vest over three years. The estimated value of the share options is determined using the Black-Scholes pricing calculator and is 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's ordinary shares.

The inputs into the "option pricing calculator" are:

	2020		2019	
	FY19	**FY19R**	**FY18**	**FY18R**
Issue date share price, $	4.90	4.96	5.00	4.75
Expected share price volatility, %	21	21	22	20
Option life, years	3	3	3	3
Risk-free interest rate, %	0.51	0.14	1.47	1.13
Exercise price, $	3.20	4.19	2.71	4.06
Fair value, at the grant date, $	**1.83**	**1.12**	**2.43**	**1.10**

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

	2020 $'000	2019 $'000
Final dividend paid - 9.50 (2019: 9.50) cents per share	13,357	13,326
Interim dividend declared - 9.50 (2019: 9.50) cents per share	13,359	13,328
	26,716	**26,654**

All above dividends were fully imputed.

The 2020 interim dividend was declared on 9 December 2020 and paid on 15 January 2021.

D4. Imputation Credit Account

	2020 $'000	2019 $'000
Balance at end of the year	**20,773**	**23,194**

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.

	2020	2019
Profit attributable to equity holders of the Company ($'000):		
From continuing operations	21,025	45,000
From discontinued operations	-	73,002
Total	**21,025**	**118,002**

Weighted average number of shares:		
Ordinary shares	140,402,514	140,108,891
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	467,735	481,924
Weighted average number of Ordinary Shares for diluted earnings per share	**140,870,249**	**140,590,815**

Earnings per share (cents):		
Basic - continuing	15.0	32.1
Basic - discontinued	-	52.1
Basic - total	**15.0**	**84.2**

Diluted - continuing	14.9	32.0
Diluted - discontinued	-	51.9
Diluted - total	**14.9**	**83.9**

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' 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 as financial assets 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 ECL 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 ECL on these financial assets is 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 ECL 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 ECL 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.

Accounting Policies (continued)

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

	2020 $'000	2019 $'000
Trade receivables	14,151	13,400
Interest receivable	585	2,043
Other receivables	1,091	1,504
Owing by entity accounted for using the equity method	157	97
Goods and services tax	3,468	3,549
	19,452	**20,593**

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. 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 5 customers who represent 38.07% (2019: 5 customers who represent 45.47%) 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 1 month, and for which provision for expected credit losses was not material 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:

1 month	2,316	2,086
2 months	616	979
More than 2 months	2,169	1,827
	5,101	**4,892**

E2. Other Financial Assets

Current:

	2020 $'000	2019 $'000
At fair value:		
Foreign currency derivative instruments	12,688	4,571
	12,688	**4,571**

Non-current:

	2020 $'000	2019 $'000
At fair value:		
Foreign currency derivative instruments	17,572	6,593
Shares in unlisted companies	184	221
At amortised cost:		
Employee loans	387	303
	18,143	**7,117**

E3. Trade and Other Payables

	2020 $'000	2019 $'000
Trade payables	13,707	11,628
Accruals	6,494	4,433
Employee entitlements	4,916	3,782
	25,117	**19,843**

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) in 2013. The total facility is $22,000,000 (2019: $22,000,000). At 31 December 2020 the undrawn amount under these facilities was $2,000,000 (2019: $2,000,000). In addition, a $1,000,000 ANZ overdraft facility is available to Group (2019: $1,000,000). This facility was undrawn as at both 31 December 2020 and 31 December 2019.

In 2018, the Group obtained an additional USD 11,635,000 term loan from Rabobank and USD 11,635,000 term loan 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.

The floating interest rate is 1.25% to 2.44% (2019: 2.03% to 3.06%) and the term borrowing facility expiry date is 1 July 2022. 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.

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.

**Charging Group Companies as at 31 December 2020 are Scales Corporation Limited, Scales Holdings Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Geo.H.Scales Limited, Meateor Foods Limited, Scales Logistics Limited and Meateor Group Limited.*

E4. Borrowings (continued)

	Seasonal facility		Other current borrowings		Term borrowings	
	2020	2019	2020	2019	2020	2019
	$'000	$'000	$'000	$'000	$'000	$'000
Seasonal (current) and term (non-current) borrowings:						
Opening balance	-	2,000	-	-	54,551	64,664
Drawdowns	3,000	79,000	955	-	-	-
Repayments	(3,000)	(81,000)	-	-	-	(10,000)
Effect of foreign currency translation	-	-	(95)	-	(2,352)	(113)
	-	**-**	**860**	**-**	**52,199**	**54,551**

E5. Other Financial Liabilities

	2020	2019
Current financial liabilities at fair value:	**$'000**	**$'000**
Foreign currency derivative instruments	35	785
Interest rate swap contracts and forward rate agreements	618	537
Put option	3,647	3,055
	4,300	**4,377**

Non-current financial liabilities at fair value:		
Foreign currency derivative instruments	366	1,459
Interest rate swap contracts and forward rate agreements	554	762
Put option	1,602	1,745
	2,522	**3,966**

In 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.

In 2018 the Group acquired 60% of Shelby JV LLC and its subsidiaries Shelby Foods LLC, Shelby Exports Inc, Shelby Cold Storage LLC, Shelby Trucking LLC and Shelby Properties LLC (collectively, Shelby Group).

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 Group 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.

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 can 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.

E6. Interest Rate Risk (continued)

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

	Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	%	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Maturity date - Interest rate swap contracts:						
Within 1 year	4.62	-	10,000	-	(323)	-
2-5 years	3.25	3.93	10,000	20,000	(849)	(1,299)
After 5 years	-	-	-	-	-	-
			20,000	**20,000**	**(1,172)**	**(1,299)**

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.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying interest rates. The main source of hedge ineffectiveness in these hedge relationships (which is not material) is the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap contract, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

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% 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.

	2020		2019	
	+1%	**-1%**	**+1%**	**-1%**
	$'000	**$'000**	**$'000**	**$'000**
Impact on net profit after tax	192	(192)	(187)	187
Impact on cash flow hedge reserve net of tax	238	(247)	371	(389)

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:

	2020		2019	
	Contract Value	**Fair Value**	**Contract Value**	**Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
Sale commitments forward foreign exchange contracts	217,512	14,979	210,587	5,224
Sale commitments foreign exchange options	106,640	14,880	90,410	3,696

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 2021 to 2025 financial years at which stage the amount deferred in equity will be released into profit or loss.

For hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying exchange rates. The Group uses the hypothetical derivative method for the hedge effectiveness assessment and measurement of hedge ineffectiveness. As for the hedge of the net investment in Meateor US LLC sub-group, the Group assesses effectiveness by comparing the nominal amount of the net assets designated in the hedge relationship with the nominal amount of the hedging instrument.

This is a simplified approach because the currency of the exposure and hedging instruments perfectly match and the Group excludes from the designation the foreign currency basis spread.

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.

	2020		**2019**	
	+5%	**-5%**	**+5%**	**-5%**
	$'000	**$'000**	**$'000**	**$'000**
Impact on net profit after tax	(273)	302	(214)	194
Impact on cash flow hedge reserve net of tax	(11,694)	10,811	(10,861)	10,309

E8. Categories of Financial Instruments

	2020	**2019**
	$'000	**$'000**
Financial assets:		
Amortised cost	63,789	35,979
Derivative instruments in designated hedge accounting relationships	30,260	11,164
Fair value through profit or loss	184	221
	94,233	**47,364**
Financial liabilities:		
Amortised cost	92,919	88,910
Derivative instruments in designated hedge accounting relationships	1,573	3,543
Fair value through profit or loss	5,249	4,800
	99,741	**97,253**

The carrying amount of financial instruments at amortised cost approximates their fair value.

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 3 months	4 months to 1 year	1–5 years	Total
	$'000	$'000	$'000	$'000
2020				
Trade and other payables	25,117	-	-	25,117
Dividend declared	13,359	-	-	13,359
Put options	3,647	-	1,602	5,249
Borrowings	208	630	52,616	53,454
Interest rate swaps and forward rate agreements	196	437	614	1,247
	42,527	**1,067**	**54,832**	**98,426**
2019				
Trade and other payables	19,843	-	-	19,843
Dividend declared	13,328	-	-	13,328
Put options	3,055	-	1,745	4,800
Borrowings	410	1,230	55,366	57,006
Interest rate swaps and forward rate agreements	198	595	1,244	2,037
	36,834	**1,825**	**58,355**	**97,014**

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.

F1. Subsidiary Companies

Subsidiary Companies:	Principal Activity	Country of Incorporation	Holding 2020	Holding 2019	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
Longview Group Holdings Limited	Non trading company	New Zealand	100%	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%	100%	31 December
Meateor US LLC	Holding company	United States	100%	100%	31 December
Mr Apple New Zealand Limited	Trading company	New Zealand	100%	100%	31 December
New Zealand Apple Limited	Trading company	New Zealand	100%	100%	31 December
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, LLC	Coldstore operator	United States	60%	60%	31 December
Shelby Exports, Inc	Non trading company	United States	60%	60%	31 December
Shelby Foods, LLC	Trading company	United States	60%	60%	31 December
Shelby JV LLC	Holding company	United States	60%	60%	31 December
Shelby Properties LLC	Non trading company	United States	60%	60%	31 December
Shelby Trucking LLC	Trading company	United States	60%	60%	31 December

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

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

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

F2. Assets Held for Sale

As at 31 December 2020, Mr Apple New Zealand Limited's Havelock North packhouse assets were classified as held for sale. An unconditional agreement has been reached for the sale of the assets which is due to settle after balance date. The packhouse assets are included in the Horticulture segment.

G. Other

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

G1. Capital Commitments

	2020 $'000	2019 $'000
Commitments entered into in respect of apple trees as at balance date	289	1,192

G2. Leases

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.

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 right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date 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 *Leases* permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

G2. Leases (continued)

Right-of-use assets

	Land and buildings $'000	Plant and equipment $'000	Office equipment motor and vehicles $'000	Total $'000
Carrying Amount				
Balance at 1 January 2019	77,651	294	5,025	**82,970**
Additions	2,440	136	1,053	**3,629**
Depreciation expense	(6,013)	(216)	(1,595)	**(7,824)**
Balance at 31 December 2019	**74,078**	**214**	**4,483**	**78,775**
Additions	4,831	-	2,572	**7,403**
Depreciation expense	(6,082)	(185)	(2,034)	**(8,301)**
Balance at 31 December 2020	**72,827**	**29**	**5,021**	**77,877**

	2020 $'000	2019 $'000
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	8,301	7,824
Interest expense on lease liabilities	2,981	3,075
Expense relating to short-term leases and low-value assets	2,960	2,089
Lease liabilities		
Current	10,053	9,427
Non-current	70,190	70,713
Maturity analysis (undiscounted cash flows)		
Year 1	10,053	9,427
Year 2	9,003	8,850
Year 3	8,089	8,098
Year 4	7,535	7,330
Year 5	7,146	6,779
Onwards	61,983	65,077
	103,809	**105,561**
Cash outflows for leases		
Interest on lease liabilities	2,981	3,075
Repayments of lease liabilities	7,300	6,459
Short-term leases and low-value asset leases	2,960	2,089
	13,241	**11,623**

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.

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

Key management personnel remuneration	2020 $'000	2019 $'000
Short-term employee benefits	2,784	2,956
Share-based payments	367	218
Post-employment benefits	95	104
	3,246	**3,278**

During 2020, 1,062,451 (2019: 740,968) shares were issued to key management personnel in accordance with the Senior Executive Share Scheme described in Note D2.

Transactions with equity accounted entities		
Revenue from sale of goods	1,189	1,409
Revenue from services	3,910	2,564
Dividends received	1,500	1,500
Trade receivables at balance date	257	182

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 event is under investigation by specialists and a claim 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, except ex-gratia payments from reinsurers to the insured party recorded as claim expense and reinsurance revenue (as disclosed in Note B3).

G5. Events Occurring After Balance Date

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

G6. COVID-19

On 24 March 2020, the New Zealand Government announced a number of Orders under the Health Act 1956 and the Epidemic Preparedness Act 2006 to restrict certain activities for the purposes of preventing the outbreak and spread of COVID-19. The Group's business units were classified as "essential services" and complied with the respective health requirements within each jurisdiction they operated in.

As at the date of authorisation of these financial statements, the Group was operating in Alert Level 1 in New Zealand with strict border restrictions remaining in place and contact tracing encouraged. The Group operations outside of New Zealand continue to be further impacted by the COVID-19 pandemic.

(a) Uncertainties, estimates and judgements

The economic and public health conditions globally have impacted these trading results, and the current uncertainties are expected to impact the trading results in the future.

The risks impacted by the uncertainty arising from COVID-19 include credit risk and market risks which impact the Group's assessment of expected credit losses, carrying value of inventories and the recoverability of non-current assets and goodwill.

The Directors have assessed the impact of COVID-19 on these judgements and estimates and concluded that no significant changes to the carrying values of assets or liabilities are currently necessary.

(b) Government grants

Government support was received in New Zealand and Australia by Group subsidiaries. While the criteria were met for receiving this support, the Group opted to refund these amounts to the respective government agencies.

Similar support was received in the United States of America by way of government loans. These loans may be forgiven if the eligibility criteria are met. The loan balances are carried as a liability until the criteria are met.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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 2020, 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 46 to 85, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, 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 Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor 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 Company and 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 $1.9 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Valuation of Unharvested Agricultural Produce

Unharvested agricultural produce growing on bearer plants (e.g. fruit), is measured at fair value less costs to sell in accordance with NZ IAS 41 Agriculture.

The Group's unharvested agricultural produce was valued at $24.02 million at balance date as described in note C2. A revaluation loss of $0.4 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.</td><td>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 by comparing to the actual results.
• Checking the mechanical accuracy of the discounted cash flow model.</td></tr>
<tr><td>Valuation of Apple Trees

As disclosed in note C1 the Group has apple trees valued at $31 million. A revaluation decrease of $1.8 million and $31,000 were recognised in profit and loss and other comprehensive income, respectively.

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.

The fair value of the Apple trees are determined by an independent registered valuer on the basis of a discounted cash flow analysis of forecast income streams and costs from each orchard less the fair value of orchard land and buildings. 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.</td><td>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 methods applied were 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. We specifically discussed the impact of COVID-19 with the valuer;
• Assessing the valuation methodology for consistency with the the most recent valuation ("2019 valuation") and determining whether any changes to the methodology were appropriate;
• Challenging the reasonableness of the key assumptions by comparing them to the 2019 valuation, the Group's internal data and current market evidence. We focused on the assumptions relating to production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates, including consideration of the impact of COVID-19;
– We tested estimated production levels per hectare by comparing orchard hectares in production with the 2019 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 2019 valuation and available market data.
– We challenged the discount rates by comparing them with 2019 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.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Impairment Assessment of the investment in Meateor Pet Foods Limited Partnership ("LP") As disclosed in note C3 the Group holds a 50% investment in Meateor Pet Foods Limited Partnerhip, a joint venture. The entity is an equity accounted investment with a carrying value of $20 million at 31 December 2020. Due to the recent performance of the LP being below expectations, the Group has assessed the investment in the LP for impairment. A discounted cash flow methodology was used to determine the recoverable amount of the investment in the LP at 31 December 2020. Within the net assets of the LP is goodwill which must be tested for impairment annually. The key assumptions applied in the model are: • Forecast earnings; • Pre-tax discount rates; • Sales and cost of sales growth rate; • Overhead cost growth rate; and • Terminal growth rate. The Group has concluded that there is no impairment of the investment in the LP as the recoverable amount exceeded the carrying value of the LP, however, the Group determined that there are reasonably possible changes in key assumptions that could result in impairment as disclosed in C3. We have included the impairment assessment of the Group's investment in Meateor Pet Foods Limited Partnership as a key audit matter due to the significance of the balance to the financial statements and the level of judgement applied by the Group in determining the key assumptions used to determine the recoverable amount, including the sensitivities of these assumptions.	We considered whether the Group's methodology for assessing impairment is compliant with NZ IAS 36 Impairment of Assets. We focused on testing and challenging the suitability of the model and reasonableness of the assumptions used by the Group in conducting their impairment reviews. Our procedures included: • Agreeing a sample of future cash flows to Board approved forecasts; and • Challenging the reliability of the Group's growth rates by comparing the forecasts underlying the growth rates to historical forecasts and actual results of the underlying businesses (where applicable) and to external sector forecast data. This also included consideration of the impact of COVID-19 on both forecast revenue and profitability of the LP. We used our internal valuation specialists to assist with evaluating the models and challenging the Group's key assumptions. The procedures of the specialist included: • Evaluating the appropriateness of the valuation methodology; • Testing the mathematical integrity of the model; • Evaluating the Group's determination of the pre-tax discount rates used in the model through consideration of the relevant risk factors for the LP, the cost of capital for the LP, and market data on comparable businesses; and • Comparing the terminal growth rates to market data for the industry sectors. We evaluated the sensitivity analysis performed by management to consider the extent to which a change in one or more of the key assumptions could give rise to impairment in the investment in the LP.

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

Paul Bryden, Partner
for Deloitte Limited
Christchurch, New Zealand
25 February 2021


Mr APPLE
HALLY LABELS

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. 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' 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 2020 and is reviewed annually. This Corporate Governance Statement was approved by the Board on 18 March 2021.

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.
- 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 2020 there was a continuation of initiatives in relation to ethics and ethics training. A new suite of policies were approved by the Board covering Anti-Fraud, Bribery & Corruption, Gifts and Travel Expenses, and further training was undertaken in Anti-Bribery and Corruption.

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. 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, risk, financial and ESG (Environmental, Social and Governance) plans prepared by Management.
- Monitor performance against the strategic, business, risk, financial and ESG 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 risk, financial and ESG 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 diversity 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, logistics, finance and capital markets, risk and compliance, legal and regulatory, people, digital and technology, export, retail and doing business in China.

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 2020 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.

RECOMMENDATIONS 2.4, 2.8 AND 2.9

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. A majority of the Board should be independent Directors.

The Chair should be independent.

Board of Directors

A profile of each of the Directors is on pages 41 – 42 of this report. The profiles include information on the year of appointment, skills, experience and background of each Director.

A majority of the Board are Independent Directors. 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 15.13% 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 Corporate Governance Code are used for this purpose, which for 2020 included specific consideration of the tenure of any non-executive director serving longer than 9 years.

Ownership of Scales shares by Directors is encouraged rather than being a requirement. Directors' ownership interests are disclosed at page 107.

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. The Board has committed to a further Board evaluation process in 2021 which will cover any future skills gap, plus ensuring that upcoming Board succession is undertaken in a planned and orderly manner. Further updates will be provided at the 2021 Annual Shareholders' Meeting.

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

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 2020 are included in the Director Disclosures section on page 106.

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.

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. The programme is designed to give talented young aspiring Directors exposure to a company Board, whilst also giving the host company a fresh perspective. Our fourth Future Director, Jemma McCowan, ended an 18-month term on 31 December 2020, and the Board is currently seeking Jemma's successor.

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 current objectives are:

- Continue to strive to ensure strong female candidates are identified in the recruitment process for all Board and senior executive roles;
- Review and encourage participation of under-represented groups in our leadership training programmes;
- Complete a review of our gender pay equality across roles, age and salary bands; and
- Make access to courses in Te Reo Maori language available to all staff, and also encourage the learning of other languages that are relevant to employees' roles.

In accordance with the objectives, gender pay equality across the Company was reviewed in 2020. The overall finding of the review was that the Company offers pay equity across genders. Work is continuing on the appropriate targets and measurements for the remaining objectives.

The gender composition of Scales' Directors, Senior Managers and Management Team (comprising the top 2 layers of management) was as follows:

	As at 31 December 2020		As at 31 December 2019	
Position	**Female**	**Male**	**Female**	**Male**
Director	1 (14%)	6 (86%)	1 (14%)	6 (86%)
Senior Managers	1 (20%)	4 (80%)	1 (20%)	4 (80%)
Management Team (excluding Senior Managers)	6 (40%)	9 (60%)	4 (27%)	11 (73%)

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 Chair 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 4 formally constituted committees – the Audit and Risk Management Committee, the Nominations and Remuneration Committee, the Health & Safety and Sustainability 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, which 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 12 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 2020.

	Board		Audit and Risk Management Committee		Nominations and Remuneration Committee		Finance and Treasury Committee		Health & Safety and Sustainability Committee	
	Eligible to attend	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**
Andrew Borland	8	8	-	-	-	-	6	6	5	5
Tim Goodacre	8	8	-	-	5	5	-	-	-	-
Nick Harris	8	8	5	5	-	-	-	-	5	5
Mark Hutton	8	8	5	5	5	5	6	6	-	-
Alan Isaac	8	8	5	5	-	-	-	-	-	-
Lai Po Sing, Tomakin	8	8	-	-	-	-	-	-	-	-
Nadine Tunley	8	8	-	-	-	-	-	-	5	5

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 5 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 Nomination and Remuneration Committees which operate under written charters.

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 5 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 & Safety and Sustainability 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 Committee is also responsible for sustainability issues.

The primary functions of the Committee are:

- To assist the Board to provide leadership and policy for health & safety and sustainability.
- 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.
- To support sustainability initiatives across the Company.

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), Andy Borland and Nadine Tunley.

The Committee met on 5 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 strategic focus to seek organic and acquisitive growth opportunities, 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 6 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 disclosures.

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.

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 People, Corporate, Marketplace, and Environment. New to the report this year is commentary on the work that has commenced around climate risk reporting.

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 2020 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 may be amended from time to time and 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, flexible and benchmarked structure that reflects market best practice. The policy is to ensure that the appropriate culture is maintained within the business, is tailored to the specific circumstances of the Company and reflects each person's duties and responsibilities so as to attract, motivate and retain high calibre people. 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.

The Nominations and Remuneration Committee regularly assesses if the remuneration outcomes are both meeting these objectives and ensuring the outcomes are reasonable, considering the Company's actual performance.

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. Scales' shareholders approve a Directors' fee pool, which is currently set at $600,000 per annum.

The Board reviews its fees annually to ensure the Company's non-executive Directors are fairly remunerated for their services and recognising the level of skill and experience required to fulfil the role. The process involves benchmarking against a group of peer agribusiness 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 base 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 and specific skills required by each Director who serves on those Committees. All Directors are also entitled to be reimbursed for costs associated with carrying out their duties, including a training allowance.

Fees payable to the non-executive Directors of the Company for the period 1 January 2020 to 31 December 2020 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 & Safety and Sustainability Committee	Fees for serving on Finance and Treasury Committee
Tim Goodacre	$148,000 (Chair)	$0	$0	$0	$0	$0
Alan Isaac	$74,000	$0	$18,000 (Chair)	$12,000	$0	$0
Nick Harris	$74,000	$0	$6,000	$0	$9,000 (Chair)	$0
Mark Hutton	$74,000	$12,000 (Chair)	$6,000	$0	$0	$9,000 (Chair)
Lai Po Sing, Tomakin	$74,000	$0	$0	$0	$0	$0
Nadine Tunley	$74,000	$0	$0	$0	$6,000	$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 2020 to 31 December 2020 is set out in the remuneration bands detailed below:

Amount of Remuneration	Employees
$100,001 - $110,000	8
$110,001 - $120,000	8
$120,001 - $130,000	7
$130,001 - $140,000	10
$140,001 - $150,000	3
$150,001 - $160,000	11
$160,001 - $170,000	2
$170,001 - $180,000	4
$180,001 - $190,000	3
$190,001 - $200,000	1
$200,001 - $210,000	3
$210,001 - $220,000	1
$220,001 - $230,000	1
$230,001 - $240,000	1
$250,001 - $260,000	2
$260,001 - $270,000	1
$270,001 - $280,000	3
$300,001 - $310,000	1
$340,001 - $350,000	2
$350,001 - $360,000	1
$360,001 - $370,000	1
$580,001 - $590,000	1
$590,001 - $600,000	1
$1,020,001 - $1,030,000	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 2020 was $775,440 (2019: $776,018).

(b) Components of Compensation – CEO and Nominated Executives

(i) Structure

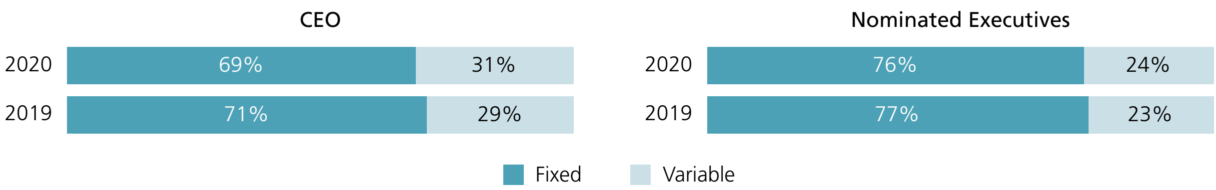
The Company aims to reward the CEO and nominated executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, so as to:

- 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.
- 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 with the proportion of fixed and variable components established for the CEO and for each nominated executive.

The remuneration packages for the CEO and nominated executives are all subject to Board approval, following recommendations from the Nominations and Remuneration Committee. During 2020, external reviews of the STI and LTI Schemes were commissioned. Recommendations arising from these reviews will be considered by the Board and implemented in 2021. There were no material changes to the structure or targets for the fixed or STI remuneration during 2020.

The mix of fixed and variable 'at risk' remuneration payable in respect of 2020 and 2019 was as follows:



(ii) Fixed annual remuneration

Remuneration levels are regularly reviewed 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 2020, the CEO received $537,693 (2019: $547,498) in fixed annual remuneration. The cash remuneration, STI and LTI Schemes are linked and fixed for a 3 year period.

(iii) Variable remuneration – STI Scheme

The current STI Scheme is directly linked to the achievement of the annual financial and operational targets. As such it can be viewed as a 'profit share' arrangement. The objective of the STI Scheme is to provide an additional incentive to the executive to achieve the targets and ensure that the cost to the Company is flexible and in line with the trading outcome for the current year.

Actual STI Scheme payments depend on achieving specific financial targets, determined by the Board to be aligned with targets communicated to shareholders. The targets are set at the beginning of the year and are also subject to a number of 'qualifying gates' including liquidity and ESG measures. The financial 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.

STI Scheme payments relating to the financial year ended 31 December 2020 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 2020 relating to the 2019 financial year. The actual amount paid for all nominated executives in the STI Scheme for the 2019 year was $621,424 and the total liability for 2020 is $588,351, being 71% of the total pool for the year.

The STI Scheme payment for the CEO relating directly to the financial year ended 31 December 2020 has been approved for payment, with the CEO receiving $144,000 (2019: $100,901) 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 2020. For the financial year ended 31 December 2020 there were 31 nominated executives in the STI Scheme.

In addition to the STI Scheme the Board reserves the ability to pay ad hoc bonus payments to any employee where certain outcomes are considered by the Board to positively impact on long term success. For the 2020 year, ad hoc bonuses for nominated executives, of $251,352, have been accrued for payment in 2021.

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.
- 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 Total Shareholder Return (TSR) approach. This approach only rewards executives if long term 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 3 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 12 months a total of 593,305 shares vest, on 20 April 2021 and 28 June 2021 (as detailed in the table below). Alternatively, if an employee leaves employment before the expiry of the 3 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. The criteria for share allocation under the Scheme for the 2020 year is the achievement of a gross TSR of 17.5% over the reference share price. The reference share price for all new participants is set at the time of joining the scheme.

The Board has retained the discretion to vary the applicable criteria for each offer under the LTI Scheme.

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 2020. For the financial year ended 31 December 2020, there were 50 nominated executives in the LTI Scheme, a decrease of 1 from the 2019 year.

In addition to the original LTI Scheme, selected executives were provided with a one-off refresh opportunity to increase their participation in the share-based LTI Scheme with additional shares being allocated over a 3 year period, commencing in 2018. The final allocation price was referenced to the share price at the time of implementation. For 2020 the total additional shares issued was 209,626 shares. This refresh allocation replaced 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 2020, 301,657 shares were allocated under the LTI Scheme relating to the 2019 financial year, with matching interest free loans of $965,278, an average of $3.20 per share. The CEO will receive 45,000 shares in the Company under the LTI Scheme relating to the financial year ended 31 December 2020, compared to 45,000 shares relating to the previous year. As at the end of the financial year ended 31 December 2020, the total balance owing under the loans advanced to the CEO under the LTI Scheme was $1,373,155 and $2,298,303 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 486,986 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 $386,957, 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 2020 are as follows:

Grant date	Vesting date	Exercise price ($)	Number of shares				
			Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
5 May 2017 - FY16A	5 May 2020	1.70	278,879	-	-	(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 - FY18R	28 June 2021	4.13	207,023	-	-	-	207,023
30 April 2019 – FY18	30 April 2022	2.71	261,356	-	-	-	261,356
28 June 2019 - FY19R	28 June 2022	4.06	214,285	-	-	-	214,285
30 April 2020 – FY19	30 April 2023	3.20	-	301,657	-	-	301,657
28 June 2020 – FY20R	28 June 2023	4.19	-	209,626	-	-	209,626
Total			**1,383,659**	**511,283**	**-**	**(314,713)**	**1,580,229**

The total cost of the LTI Scheme relating to share allocations made during 2020 was $785,682. Under accounting standard IFRS 2 *Share Based Payments*, the total option value of each annual allocation is spread across the 3 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 2020 is $697,679. 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 2020 is detailed below. In addition, the annual allocation spread across the 3 years of the vesting period is as follows:

Financial Year	LTI Scheme Year	Allocation Cost at Grant Date	Amortisation Expense*
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	2018	$869,951	$865,695
2020	2019	$785,682	$697,679
2021*			$656,892
2022*			$353,997
2023*			$98,757

*The forecast years assume no further Allocations.

Non-Statutory remuneration

The statutory format in which companies are required to present remuneration data may make it difficult for shareholders to understand the total remuneration actually earned by nominated executives in any year. In addition to the timing and recording of STI Scheme payments, the requirement for share-based payments to be calculated at the time of grant (not vesting) and accrued over the vesting period may not then reflect what nominated executives actually received or became entitled to during the financial year under review.

The following table summarises the total value of vested shares actually received by nominated executives on the date of vesting and can be compared to the Allocation Cost recorded above.

The value recorded in the following table for each allocation highlights the amount by which the share price on the vesting date exceeded the performance targets.

Financial Year	LTI Scheme Year	Value at Vesting Date	Share Price at Vesting Date
2017	IPO	$3,245,760	$3.45
2018	2014	$352,066	$4.75
2019	2015	$1,110,314	$5.01
2020	2016	$1,126,548	$4.80

(iv) Employee share ownership scheme

At the time of the Company's IPO, 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 the 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 present fairly 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 & Safety and Sustainability Committee was initially 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 external auditor. Paul Bryden is the current audit engagement partner.

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 its view, it was able to operate independently during the year.

Fees paid to the external auditors are included in note B2 of the notes to the financial statements. A total of $351,982 was paid for assurance-related services (including $122,982 paid to Sheehan & Company for the audit of Meateor LLC and its subsidiaries). There was no non-assurance work carried out by the external auditors during the year. All non-assurance 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.

During 2020 the Company's internal audit programme saw a continuation of the co-sourcing of engagements with KPMG.

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. The annual report, 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 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 historically have been held in Christchurch, reflecting the head office location for the Company, and the historical shareholder base. The Board has requested that future Annual meetings are periodically held outside of Christchurch to ensure the increasingly diverse investor base has an opportunity to participate in meetings. In 2020, due to the COVID-19 pandemic, the Annual meeting was successfully held as an online-only meeting, with all shareholders having the ability to view the meeting, and to also vote and ask questions.

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

RECOMMENDATION 8.4

When seeking additional equity, the Company should offer shares to existing shareholders on a pro-rata basis before offering shares to other investors.

The Board will take this recommendation into account if considering any future capital raisings.

RECOMMENDATION 8.5

The Board should ensure that the notice of meeting for the Annual Shareholders' Meeting and any special meeting is posted on the issuer's website as soon as possible and at least 20 working days prior to the meeting.

Notice of Meeting

Scales' Notice of Meeting will be available at least 20 working 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 2020:

Scales Corporation Limited

Andrew Borland	Executive Director
Tim Goodacre	Independent Chair
Nick Harris	Independent Director
Mark Hutton	Independent Director
Alan Isaac	Independent Director
Lai Po Sing, Tomakin	Director
Nadine Tunley	Independent Director

Fern Ridge Produce Limited

Russell Black
Andrew Borland
Hamish Davis
Andrew van Workum

Geo.H.Scales Limited

Andrew Borland
Steve Kennelly
Kent Ritchie

Longview Group Holdings Limited

Andrew Borland
Andrew van Workum

Meateor Foods Limited

Andrew Borland
Nick Harris

Meateor Foods Australia Pty Limited

Andrew Borland
Tim Goodacre

Meateor Group Limited

Andrew Borland
Nick Harris

Meateor US LLC

Andrew Borland
John Sainsbury

Mr Apple New Zealand Limited

Andrew Borland
Tim Goodacre
Mark Hutton

New Zealand Apple Limited

Andrew Borland
Tim Goodacre

Scales Logistics Australia Pty Limited

Andrew Borland
Tim Goodacre

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
Bruce Curtis

Shelby JV LLC

Andrew Borland
John Sainsbury
Brett Frankel
Bruce Curtis

Interests Register

The following entries were made in the interests register of Scales and its subsidiaries during the period 1 January 2020 to 31 December 2020:

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 2020 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	45,000	Beneficial owner	Acquisition	$3.20 per share	30 April 2020
Mark Hutton	195,900	Indirect interest in holder, Direct Capital IV Investments Limited	Transfer	Nil	22 June 2020
Mark Hutton	52,584	Indirect interest in holder, Sirius Capital Investments Limited	Acquisition	Nil	22 June 2020
Andrew Borland	76,372	Beneficial owner	Acquisition	$4.19 per share	30 June 2020

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 2020 to 31 December 2020 are as follows:

Scales Corporation Limited	
Andrew Borland	
George H Investments Limited	Ceased as a Director
Lincoln University Centennial Trust	Appointed as a Director
Rabo Australia Limited	Ceased as a Director
Rabobank Australia Limited	Ceased as a Director
Rabobank New Zealand Branch	Appointed as a Director
The Lincoln University Foundation	Appointed as a Trustee
Mark Hutton	
Direct Capital VI Management Limited	Appointed as a Director
George H Investments Limited	Ceased as a Director
Alan Isaac	
Murray Capital General Partner Limited	Ceased as a Director
Nadine Tunley	
Central Plateau Honey GP Limited	Appointed as a Director
New Zealand Food Basket Limited	Ceased as a Director
Oha Honey GP Limited	Appointed and Ceased as a Director
Origin NZ Ltd	Appointed as a Director
Primary Sector Council	Ceased as a Member
Strong Wool Action Group	Appointed as a Director
The Manuka Holding Co Ltd	Appointed as a Director

Relevant Interests

The table below records the Scales ordinary shares in which each Director had a relevant interest as at 31 December 2020.

Director	Number of Ordinary Shares – Beneficial	Number of Ordinary Shares – Non-Beneficial
Andrew Borland	415,515	500,000
Tim Goodacre	15,625	Nil
Nick Harris	100,000	Nil
Mark Hutton	Nil	604,961
Alan Isaac	25,000	3,000
Lai Po Sing, Tomakin	Nil	Nil
Nadine Tunley	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 2020 was $229,000. There were no fees paid to Deloitte Limited for non-assurance work during the year. In addition, audit fees of $122,982 were payable to Sheehan & Company during the year ended 31 December 2020, for their audit of Meateor US LLC and its subsidiaries.

Shareholder Information

Spread of Shares

Set out below are details of the spread of shareholders of Scales as at 29 January 2021:

	Number of Shareholders	Number of Shares Held	% of Shares Held
Under 2,000	1,378	1,336,857	0.94
2,000 to 4,999	1,544	4,699,669	3.31
5,000 to 9,999	913	5,937,183	4.18
10,000 to 49,999	838	15,191,100	10.69
50,000 to 99,999	74	4,926,532	3.47
100,000 and over	76	109,999,180	77.41

20 Largest Shareholders

Set out below are details of the 20 largest shareholders of Scales as at 29 January 2021:

Shareholder	Number of Shares	% of Shares
New Zealand Central Securities Depository Limited	33,603,999	23.65
China Resources Ng Fung Limited	21,500,000	15.13
FNZ Custodians Limited	8,142,286	5.73
Custodial Services Limited	7,702,432	5.42
Custodial Services Limited	6,480,343	4.56
Custodial Services Limited	3,935,061	2.77
Custodial Services Limited	2,306,037	1.62
John Grant Sinclair & Camille Elizabeth Sinclair	2,241,000	1.58
New Zealand Depository Nominee Limited	2,196,418	1.55
Custodial Services Limited	1,637,959	1.15
Custodial Services Limited	1,590,261	1.12
Scales Employees Limited	1,580,229	1.11
John Grant Sinclair	1,425,495	1.00
JB Were (NZ) Nominees Limited	1,064,910	0.75
FNZ Custodians Limited	1,025,512	0.72
PT (Booster Investments) Nominees Limited	907,472	0.64
Forsyth Barr Custodians Limited	796,396	0.56
Sirius Capital Limited	604,961	0.43
Alan Richard Millward & Alistair Jeffrey Nicholson	534,584	0.38
Investment Custodial Services Limited	502,132	0.35
Total	**99,777,487**	**70.22**

Substantial Product Holders

Set out below are details of the substantial product holders of Scales as advised by notice to Scales at 31 December 2020.

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 2020.

Name	Number of Shares	Class of Shares
China Resources Ng Fung Limited	21,500,000	Ordinary
Harbour Asset Management Limited and Jarden Securities Limited (previously named First NZ Capital Securities Limited)	14,218,057	Ordinary

The total number of Scales Corporation Limited ordinary shares on issue as at 31 December 2020 was 142,090,521.

Other Information

NZX Waivers

Scales did not rely upon any waivers granted by NZX Limited during the year ended 31 December 2020.

Exercise of NZX Disciplinary Powers

NZX Limited did not exercise any of its powers under Listing Rule 9.9.3 in relation to Scales during the year ended 31 December 2020.

Donations

Donations of $45,084 were made by Scales during the year ended 31 December 2020.

Glossary

Average Net Cash	Average net cash is calculated as the average of the cash / debt balances plus the net working capital facility balance, as at 30 June and 31 December each year
Capital Employed	Capital Employed is calculated as non-current assets plus working capital (excluding cash, overdrafts and borrowings, NZ IFRS 16 right of use asset and lease liability, dividends declared, derivative assets/liabilities and employee loans)
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EECA	Energy, Efficiency and Conservation Authority
EPS	Earnings Per Share
Fern Ridge	Fern Ridge Produce Limited (72.88% held by Scales, consolidated with a non-controlling interest presented)
FOB	Free On Board, a term which means that the price for goods includes delivery at the seller's expense on to a vessel at a named port and no further. The buyer bears all costs thereafter (including costs of sea freight)
FY	Financial Year
GAAP	Generally Accepted Accounting Practice
GRASP	GLOBAL GAP Risk Assessment on Social Practice
Group	Scales Corporation Limited, its subsidiaries and joint ventures
Ha	Hectare, a metric unit of measurement equal to 10,000 square metres
INFINZ	Institute of Finance Professionals New Zealand Inc.
IPO	Initial Public Offering
ISO	International Organization for Standardisation
KPIs	Key Performance Indicators
Meateor International	Meateor Foods Limited and Meateor Foods Australia Pty Limited (100% held by Scales, consolidated)
Meateor NZ	Meateor Pet Foods Limited Partnership (50% held by Scales, equity accounted as a joint venture)
MT	Metric Tonnes
Net Profit	Net profit after tax
NIWA	National Institute of Water and Atmospheric Research
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
Profruit	Profruit (2006) Limited (50% held by Scales, equity accounted as a joint venture)
PVR	Plant Variety Rights
ROCE	Return on Capital Employed, calculated as EBIT divided by Capital Employed
Shelby	Shelby JV LLC group of companies (60% held by Scales, consolidated)
TCE	Tray Carton Equivalent, a measure of apple and pear weight, equal to 18.6kg packed weight which equates to 18.0kg sale weight
TCFD	Task Force on Climate-related Financial Disclosures
TEU	Twenty-foot Equivalent Unit, a unit of cargo capacity to describe container volumes
Underlying profit measures (EBIT, EBITDA, NPAT)	Non-GAAP profit measures which Directors and management use when discussing financial performance. See page 9 for definition and pages 38 – 39 for reconciliation to GAAP (NZ IFRS) profit measures.

Directory

Board of Directors

Tim Goodacre (Chair)
Andrew Borland (Managing Director)
Nick Harris
Mark Hutton
Alan Isaac
Lai Po Sing, Tomakin
Nadine Tunley

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 & Safety and Sustainability Committee

Nick Harris (Chair)
Andrew Borland
Nadine Tunley

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