



# An Investment In New Zealand's Primary Industry.

## Investment Statement

Initial public offering of ordinary shares  
in Scales Corporation Limited  
27 June 2014

**DeutscheCRAIGS**

Joint Lead Manager and  
Organising Participant

 **FIRST NZ CAPITAL**

Joint Lead Manager and  
Organising Participant

# Important Information

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

## The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to <http://www.fma.govt.nz>

## Financial advisers can help you make investment decisions

Using a financial advisor cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of advisor and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check –

- the type of advisor you are dealing with:
- the services the advisor can provide you with:
- the products the advisor can advise you on.

A financial adviser who provides you with personalised financial advisor services may be required to give you a disclosure statement covering these and other matters. You should ask your advisor about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at <http://www.fspr.govt.nz>

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial advisor.

## Important Notice

This document (*Investment Statement*) relates to the Offer by the Offeror of ordinary shares in Scales Corporation Limited (*Scales*). Scales is the issuer of the Shares, the Offeror is the issuer and the offeror, and Direct Capital IV GP Limited and each of its directors (other than those directors who are also a director of an Issuer) are promoters for the purpose of the Securities Act and Securities Regulations.

This document is an investment statement for the purposes of the Securities Act and the Securities Regulations, and has been prepared as at, and is dated, 27 June 2014. It has been prepared in compliance with the Securities Act and Securities Regulations, as modified by the Exemption Notice. There is a registered prospectus containing an offer of securities to which this Investment Statement relates.

No one is authorised by the Directors, the Issuers or the Promoters to give any information or make any representation in connection with this Offer which is not contained in this Investment Statement, the Prospectus or in other communications from the Directors, the Issuers or the Promoters. Any information or representation not so contained may not be relied upon as having been authorised by the Directors, the Issuers or the Promoters.

If you have any questions about the Offer, you should consult your financial or legal adviser or an NZX Firm.

You should seek your own taxation advice on the implications of an investment in the Shares.

## No Guarantee

No person guarantees the Shares offered under this Investment Statement. No person warrants or guarantees the performance of the Shares or any return on any investment made pursuant to this Investment Statement.

## Selling Restrictions

The Offer is being made to Pohutukawa Investors, New Zealand resident clients of NZX Firms who receive a firm allocation of Shares and to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions. No person may offer, sell (including resell) or deliver or invite any other person to so offer, sell (including resell) or deliver any Shares or distribute any documents (including this Investment Statement) in relation to the Shares to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction. The Offer will only be made to investors in Australia to the extent that such offers of Shares for issue or sale do not need disclosure to investors under Part 6D.2 or Chapter 7 of the Corporations Act.

Unless otherwise agreed with the Issuers and the Promoters, any person or entity subscribing for Shares in the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Investment Statement, and is not acting for the account or benefit of a person within such jurisdiction. In particular, any person who receives the Offer in Australia represents and warrants to the Issuers and the Joint Lead Managers that they are a person who falls within an exemption from disclosure to investors provided by the Corporations Act, including a "sophisticated investor" within the meaning of section 708(8) of the Corporations Act, a "professional investor" within the meaning of section 708(11) of the Corporations Act, or a "wholesale client" within the meaning of section 761G of the Corporations Act. Any offer of Shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act.

Any person to whom Shares are issued or sold pursuant to an exemption from the disclosure

requirements provided by the Corporations Act must not, within 12 months after the issue, offer those Shares for sale in Australia unless that offer is itself made pursuant to a disclosure document under Part 6D.2 or Chapter 7 of the Corporations Act or is itself made in reliance on an exemption from the disclosure requirements provided by the Corporations Act.

None of the Issuers, the Promoters, the Joint Lead Managers, the Registrar or any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

This document is not a prospectus, product disclosure document or other type of disclosure document required to be lodged with the Australian Securities and Investments Commission (ASIC) under Chapter 6D or Chapter 7 of the Corporations Act and it has not been, and will not be, lodged with ASIC. Accordingly, this document does not contain the information which would be contained in a prospectus, product disclosure document or other type of disclosure document prepared under the Corporations Act, and does not purport to contain all of the information that may be necessary or desirable to enable a potential investor to properly evaluate and consider an investment in the interests in the Company.

## Forward Looking Statements

This Investment Statement contains certain statements that relate to the future. Such forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Scales and which may cause the actual results, performance or achievements of Scales to differ materially from those expressed or implied by such statements.

Given these uncertainties, you are cautioned not to place undue reliance on any forward looking statements contained in this Investment Statement. Under no circumstances should you regard the inclusion of forward looking statements as a representation or warranty by the Issuers, the Promoters, their respective officers, the Directors or any other person referred to in this Investment Statement with respect to the achievement of the results set out in any such statement, or that underlying assumptions used will in fact be realised.

## Definitions

Terms used in this Investment Statement have the specific meanings given to them in the Glossary (including certain industry specific terms with which you may not be familiar).

Unless otherwise indicated, any references to dates and times are to dates and times in New Zealand and any references to \$ or NZD are to New Zealand dollars.

# Table of Contents

<b>SECTION 1</b>	Letter from the Chairman	2
<b>SECTION 2</b>	Offer at a Glance	4
<b>SECTION 3</b>	Scales at a Glance	6
<b>SECTION 4</b>	Investment Highlights	10
<b>SECTION 5</b>	About Scales	16
<b>SECTION 6</b>	What Are My Risks?	34
<b>SECTION 7</b>	Overview of Financial Information	36
<b>SECTION 8</b>	Terms of the Offer	42
<b>SECTION 9</b>	About the Shares	44
<b>SECTION 10</b>	How Do I Apply?	45
<b>GLOSSARY</b>		46
<b>APPENDIX</b>	Prospective Financial Information	48
<b>DIRECTORY</b>		

## Important Notice

**This document is an investment statement. The purpose of an investment statement is to:**

- provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to subscribe for securities; and
- bring to the attention of such a person the fact that other important information about the securities is available to that person in other documents.

**For more information to assist you in deciding whether or not to purchase Shares, you are recommended to read the Prospectus which has been prepared in respect of this Offer. The Prospectus, which includes the most recent financial statements of Scales, can be obtained, free of charge:**

- from the Companies Office website at [www.business.govt.nz/companies](http://www.business.govt.nz/companies);
- by downloading a copy at [www.scalescorporation.co.nz](http://www.scalescorporation.co.nz); or
- by calling the Registrar on **(09) 488 8777** and requesting a copy be sent to you.

# 1. Letter From the Chairman

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20 June 2014

Dear Investor,

On behalf of the Scales Board of Directors, I am delighted to invite you to become a Shareholder in the Company. Scales' origins date back to 1897. Today Scales is a large, diverse and growing New Zealand agribusiness group.

Scales is exposed to the key primary industry sectors in New Zealand across its three operating divisions, Horticulture, Storage & Logistics and Food Ingredients. This is an exciting industry to be involved in, with the Ministry for Primary Industries targeting a doubling of primary sector exports by 2025. We believe our diversity, and associated exposure to a number of expanding export sectors, is one of our key strengths.

We are proud of Scales' strong track record of financial performance, and in FY2013 achieved a record revenue of \$272.8 million and Net Profit of \$20.4 million. While the FY2013 result was assisted by a particularly good apple harvest, the outlook for Scales is very positive.

Scales is committed to growing each of its three divisions. In the near term, we are pursuing various opportunities:

- **Horticulture:** increasing apple volumes targeted at premium Asian and Middle Eastern markets reflecting Mr Apple's redevelopment programme of almost 270 ha over the past six years into premium redder, sweeter varieties sought by those markets.
- **Storage & Logistics:** New Zealand cold and bulk liquid storage requirements, as well as sea and air freight logistics support needs, are expected to continue to grow with increasing New Zealand dairy, meat and horticulture export volumes.
- **Food Ingredients:** growing New Zealand primary industry volumes and associated by-products provide Meateor and Profruit the opportunity to add value and meet increasing demand from the global pet food and beverage industries.

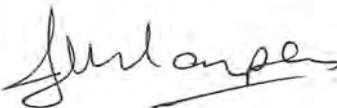
Scales has a highly experienced senior management team with an average tenure of more than 20 years, which has been led by Managing Director Andy Borland since 2007. Scales' management has the sector knowledge, relationships and expertise to continue to develop the Company and deliver positive returns for its Shareholders.

Scales is currently 84% owned by Direct Capital, with the balance held by management team members and other minority Shareholders. The Offer will raise up to \$30 million of new capital and will ensure Scales has a strong balance sheet to take advantage of future growth prospects. In addition to the new capital being raised under the Offer, Direct Capital will sell down a portion of its current shareholding but together with its co-investors will retain at least 20% ownership in Scales following the Offer and will hold the shares up until at least 31 December 2015. Management and other minority Shareholders may also sell down a portion of their shareholding.

The Investment Statement and Prospectus contain important information about Scales and the Offer. We encourage you to read the offer documentation and carefully consider the opportunities and risks before making your investment decision.

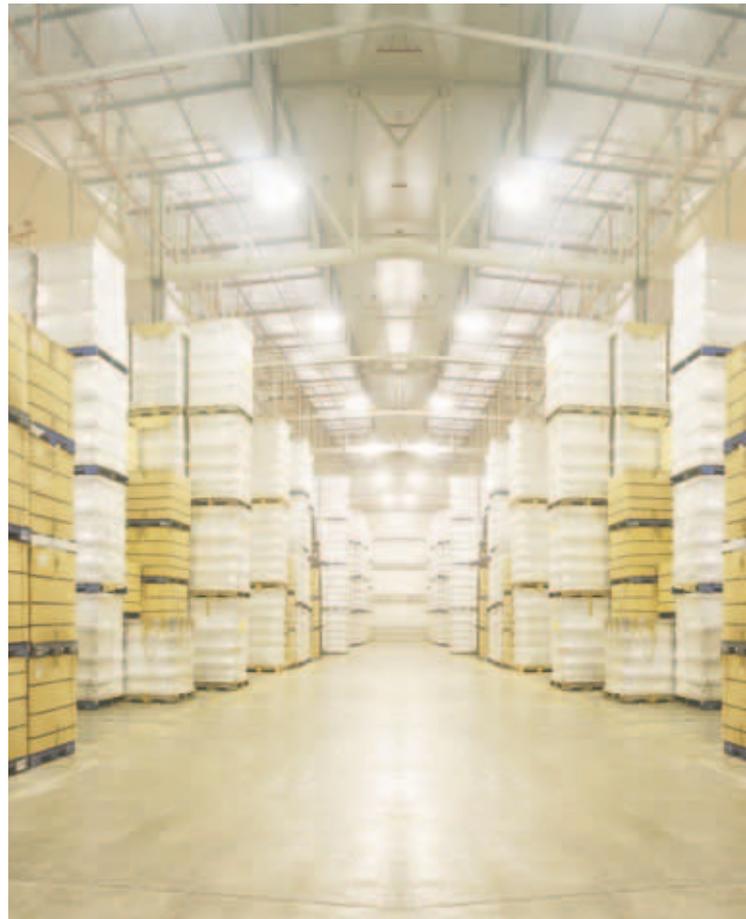
On behalf of the whole team at Scales, we look forward to welcoming you as a Shareholder.

Yours sincerely



Jon Mayson  
Chairman





## 2. Offer at a Glance

This is an initial public offering of ordinary shares in Scales.

Scales comprises three divisions: Horticulture, Storage & Logistics and Food Ingredients. These operations provide Scales with exposure to all key primary industry sectors in New Zealand. You can find more information about Scales in *Section 5: About Scales*.

The offer comprises the Broker Firm Offer, the Pohutukawa Offer and the Institutional Offer. There is no general public offer. Therefore if you wish to subscribe for Shares you must do so through an NZX Firm with a firm allocation.

The Offer is being made by the Offeror, SCL Limited. The Offeror has been incorporated solely for the purposes of facilitating the Offer and its directors are also directors of Scales. Through the Offer, Direct Capital Investments Limited, which currently holds 84.2% of the Shares, will sell between 59% and 73% of its Shares. Direct Capital Investments Limited holds Shares as custodian for DCIV-PII Delta Partnership (a partnership between Direct Capital IV Limited Partnership and Pohutukawa Delta Limited), Direct Capital IV Investments Limited, Hendry Nominees Limited, Direct Capital IV Delta Limited Partnership, the Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) and Accident Compensation Corporation. Certain Management Shareholders collectively holding 4,905,000 Shares issued to them under the Existing Senior Executive LTI Scheme<sup>1</sup> will also sell in aggregate up to 30% of those Shares through the Offer (with no one Management Shareholder selling more than 50% of the Existing Senior Executive LTI Scheme Shares they hold) and minority Shareholders

will have the opportunity to have some or all of their Shares bought back by the Company in order for those Shares to be sold to the Offeror and then made available under the Offer.

The purpose of the Offer and intended use of proceeds is:

- to raise \$30 million<sup>2</sup> which will be applied to fund issue costs and provide new capital to Scales. Scales intends to use such capital to pay down its term debt, providing Scales with flexibility for the future expansion of its business;
- to fund the Offeror to acquire Shares currently held by the Selling Shareholders in order to make those Shares available under the Offer; and
- to list Scales on the NZX Main Board which will provide Scales with additional financial flexibility, a market for Shares and an opportunity for Scales to broaden its Share register.

### Key Dates

**27 June 2014**

Pohutukawa Offer opens  
(5.00pm)

**02 July 2014**

Pohutukawa Offer closes  
(3.00pm)

**04 July 2014**

Final Price announced

**05 July 2014**

Broker Firm Offer opens

**22 July 2014**

Broker Firm Offer closes  
(5.00pm)

**24 July 2014**

Allotment Date

**25 July 2014**

Expected commencement of trading on the NZX Main Board

No later than **25 July 2014**

Expected dispatch of holding statements and any refund payments (if required)

These dates are indicative only and may be amended. The Offer may also be withdrawn at any time before the allotment of Shares at the Issuers' discretion.

<sup>1</sup> Management Shareholders may hold additional Shares but those Shares will not be sold under the Offer and will not be subject to the escrow arrangements described under the heading "Escrow Arrangements" in Section 8.1: Details of the Offer of the Prospectus.

<sup>2</sup> Scales intends to issue \$30 million worth of Shares, less the Shares (of up to \$3,180,000) to be issued to eligible Scales employees who choose to participate in the Employee Share Ownership Scheme which is not made under this Offer but which is described in Section 5.5: Board, Senior Management and Corporate Governance of the Prospectus.

<sup>3</sup> The Final Price will be announced prior to the Broker Firm Offer opening and may be above, within or below the Indicative Price Range.

<sup>4</sup> Indicative only. The actual number of existing Shares to be offered by the Offeror will only be known at the time of the bookbuild after binding sale commitments have been received by the Offeror in respect of the Shares being sold by the Selling Shareholders.

<sup>5</sup> Average Prospective Net Debt is calculated as the post Offer term debt balance of \$30 million plus the average net working capital facility balance (calculated as the average

of the net working capital facility balance as at 30 June 2014 and 31 December 2014).

<sup>6</sup> Based on the Indicative Price Range. If you acquire Shares in the Offer you will be entitled to prospective dividends on those Shares. There is no assurance that prospective dividends will be paid.

<sup>7</sup> Based on there being 135.8 million to 138.3 million Shares on issue on completion of the Offer.

<sup>8</sup> Calculated as dividends declared as a proportion of Pro forma Net Profit.

### Key Offer Statistics

Indicative Price Range <sup>3</sup>	\$1.60 to \$1.85 per Share
New Shares being offered to raise \$30 million (based on the Indicative Price Range)	16.2 million to 18.8 million
Expected number of existing Shares being offered <sup>4</sup>	59.2 million to 82.0 million
Indicative Offer Size (based on the mid point of the Indicative Price Range)	\$132.1 million to \$171.5 million
Total number of Shares on issue upon completion of the Offer	135.8 million to 138.3 million
Shareholding of Direct Capital Investments Limited and its co-investors upon completion of the Offer	20% to 30%
Indicative market capitalisation upon completion of the Offer	\$221.3 million to \$251.2 million
Average Prospective Net Debt <sup>5</sup>	\$44.1 million
Indicative enterprise value (EV)	\$265.5 million to \$295.4 million

### Key Investment Metrics

	FY2014F	FY2015F
EV/EBITDA multiple	6.8 x – 7.6 x	6.4 x – 7.2 x
Price/earnings ratio	11.9 x – 13.6 x	10.6 x – 12.1 x
Implied cash dividend yield <sup>6</sup>	5.2% – 5.9%	5.8% – 6.6%
Implied gross dividend yield <sup>6</sup>	7.2% – 8.2%	8.0% – 9.1%

These metrics are provided to help you assess the value of Scales. Indicative market capitalisation, indicative enterprise value (EV), prospective price/earnings ratio, prospective EV/EBITDA multiple and prospective implied dividend yields are shown based on the lower and upper values of the Indicative Price Range. The calculations are explained in the table set out at the end of the Glossary.

### Prospective Dividend Schedule

	FY2014F	FY2015F
There is no assurance that these dividends will be paid		
Dividends declared (\$ million)	13.0	14.5
Dividend per Share (cps) <sup>7</sup>	9.4 – 9.6	10.5 – 10.7
Dividends declared as a proportion of Net Profit	70% <sup>8</sup>	70%

Scales has presented certain financial information below on a “Pro forma” basis. Scales believes this unaudited Pro forma information more closely reflects the Group’s composition and reporting post-Offer and provides a better basis for investors to assess both historical and prospective financial information. Adjustments have been made to reflect the demerger of the Investments division of Scales, one-off Offer costs and certain reclassifications. For a full explanation of the adjustments Scales has made to its financial information see *Section 7: Overview of Financial Information* of this Investment Statement. The “statutory” information below reflects the historical and prospective financial information of the Group excluding the Pro forma adjustments.

### Selected Financial Information

/// Denotes Pro Forma Financial Information

\$ million	FY2012	FY2013	FY2014F	FY2015F
EBITDA	27.4	42.8	38.8	41.2
Net Profit	6.8	19.6	18.5	20.8
Net Profit (statutory)	13.6	20.4	15.9	20.8

Wherever prospective financial information appears in this Investment Statement (including in the selected Pro forma financial information and key investment metrics presented in this section) you should read that financial information together with the assumptions set out in the *Appendix – Prospective Financial Information* and also the risk factors set out in *Section 6: What are my Risks?* There is no guarantee that the results set out in the prospective financial information will be achieved.

EBITDA is a non-GAAP financial measure used by Scales that means earnings before interest, tax, depreciation and amortisation. You can find an explanation of trends in financial information and of EBITDA, and why Scales uses this non-GAAP measure of financial performance, in *Section 7: Overview of Financial Information*. A reconciliation of Net Profit to Pro forma EBITDA is also included in *Section 7: Overview of Financial Information*.

### 3. Scales at a Glance

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**We grow,  
process, chill  
and export to  
the world.**

**Scales has been providing essential services to the New Zealand primary industry for more than 100 years.**

Scales has origins dating back to 1897. Today it is an established market leader across all of its businesses with solid customer relationships, efficient operating systems and an experienced management team. Scales benefits from the diversity of its operations and the breadth of its involvement in the primary sector.



## Horticulture



FERN RIDGE PRODUCE LTD  
"EVERY APPLE IS A BIG DEAL"

- > **Mr Apple** is New Zealand's largest, fully integrated grower, packer and marketer of apples<sup>9</sup>
- > **In FY2013**, Mr Apple produced 2.8m TCEs of apples for export from its 1,037 ha of apple orchards, and exported 4.2m TCEs including apples from external suppliers, representing 24% of New Zealand's total apple exports
- > **Mr Apple** now exports nearly half its production to fast growing Asian and Middle Eastern markets
- > **Mr Apple** operates modern and efficient post-harvest facilities and uses leading orchard technology
- > **Fern Ridge Produce** is a 50% owned apple and produce exporter
- > **Horticulture** is forecast to contribute 58% (\$22.5 million) of FY2014F Pro forma EBITDA<sup>10</sup>

## Food Ingredients



MEATEOR  
FOODS LTD



- > **Meateor** processes and markets pet food ingredients for the global pet food industry
- > **Profruit** is a 50% owned apple and kiwifruit juice concentrate manufacturer located in Hawke's Bay
- > **Meateor and Profruit** both complement Scales' other businesses
- > **Food Ingredients** is forecast to contribute 10% (\$3.9 million) of FY2014F Pro forma EBITDA<sup>10</sup>

## Storage & Logistics

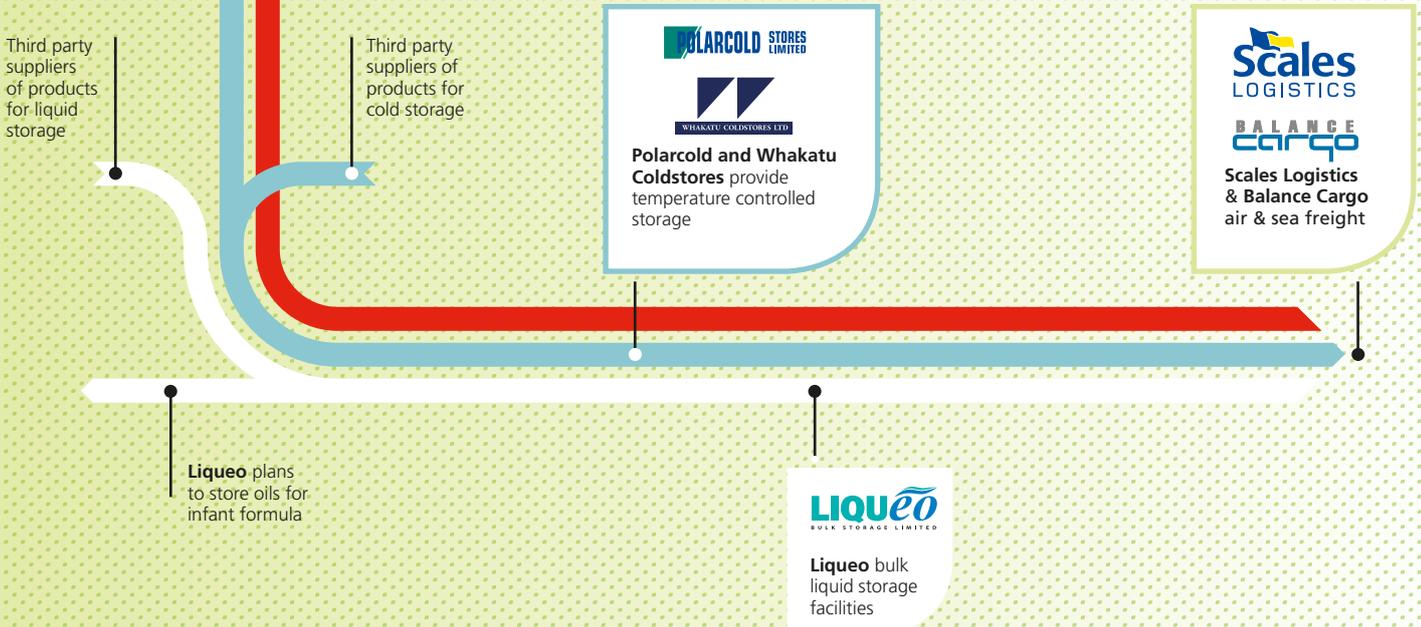
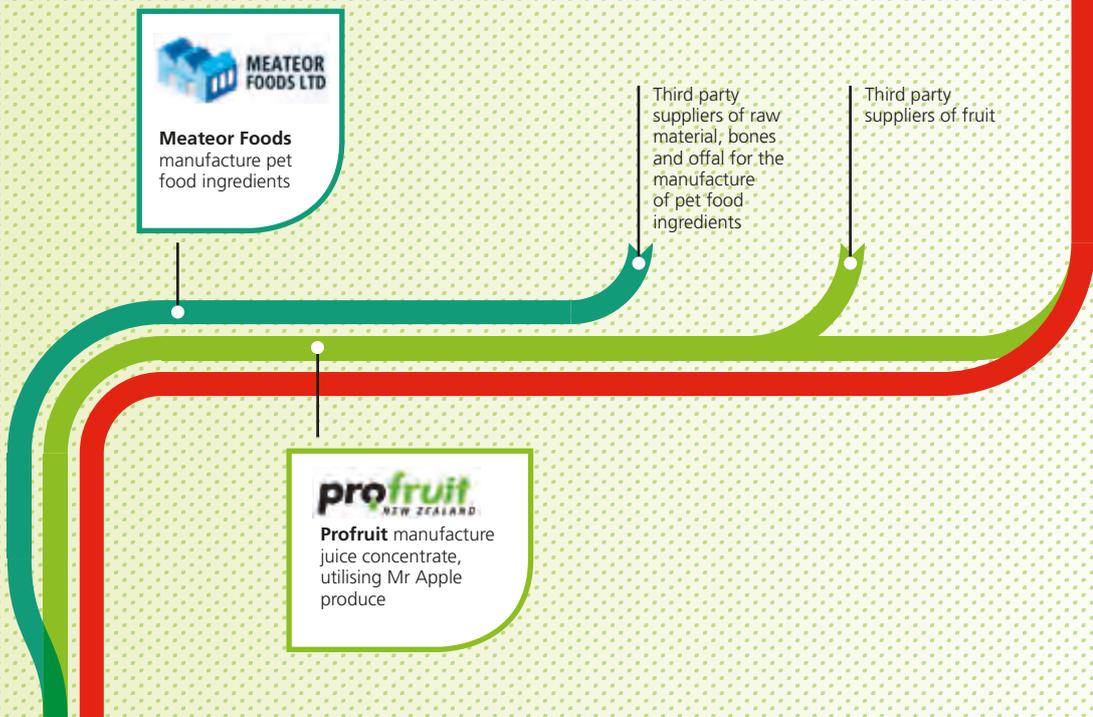


- > **Whakatu Coldstores and Polarcold** are together the largest independent provider of temperature controlled storage in New Zealand
- > **Whakatu Coldstores operates** cold storage facilities in Hastings, Napier, Kerepehi and Wellington,<sup>11</sup> with 341,131m<sup>3</sup> of temperature controlled storage
- > **Liqueo operates** bulk liquid storage terminals in Timaru and Hawke's Bay with a total capacity of 22,200 tonnes
- > **Polarcold operates** cold storage facilities in Dunedin, Timaru and Christchurch, with 265,499m<sup>3</sup> of temperature controlled storage. It also expects to commence operations at a purpose built facility in Auckland in late 2015
- > **Scales Logistics** specialises in air and sea freight of primary produce
- > **Storage & Logistics** is forecast to contribute 36% (\$14.0 million) of FY2014F Pro forma EBITDA<sup>10</sup>

9. Based on FY2013 total own-grown and exported TCEs.

10. FY2014F Pro forma EBITDA includes a negative contribution from Head Office and Selacs Insurance of \$1.6 million (which is why combined divisional FY2014F Pro forma EBITDA contribution is 104%).

11. Whakatu Coldstores' Wellington facility is operated under a management contract.



# 4. Investment Highlights

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# An investment in New Zealand.

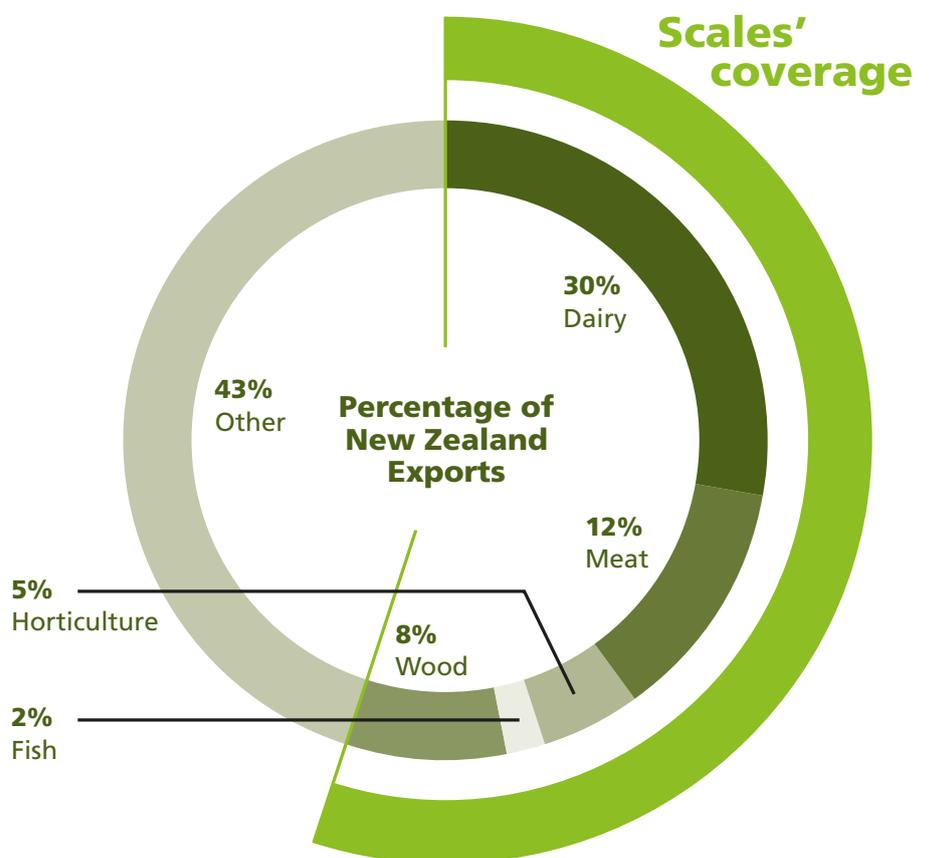
During 2013, New Zealand exported over \$48 billion in goods – 56% of it in food.

Scales grows and produces food for export and provides essential storage and logistics services for a range of primary exporters.

Scales is well positioned to benefit from growth in New Zealand food exports, expected to increase at 6% annually through to 2017. This forecast outlook is driven by:

- New Zealand's highly efficient production base;
- continuing productivity improvements and increasing land under irrigation; and
- increasing population and urbanisation in key Asian markets, which in turn is growing rates of consumption of New Zealand primary products.

## Scales' Exposure to Primary Industry Sectors



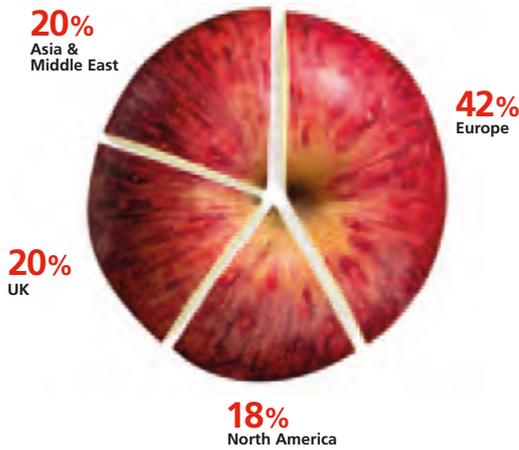
*Note: Scales' exposure to primary industry sectors is not directly proportionate to the percentage of New Zealand exports presented above.*

*Source: Statistics New Zealand*

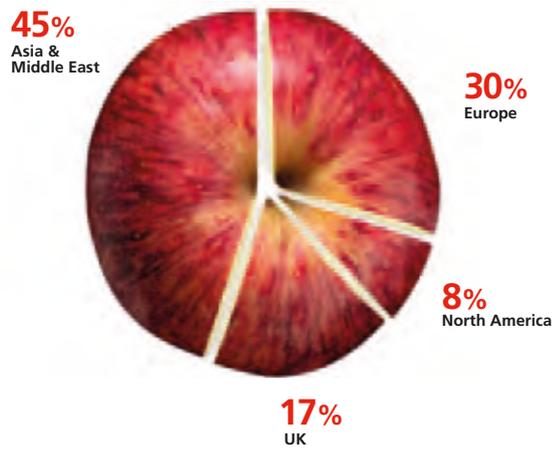
# New Zealand's largest integrated apple grower, packer and marketer.<sup>12</sup>

Mr Apple is refocusing its exports to higher growth, premium Asian and Middle Eastern markets.

Exports by Market (2007)

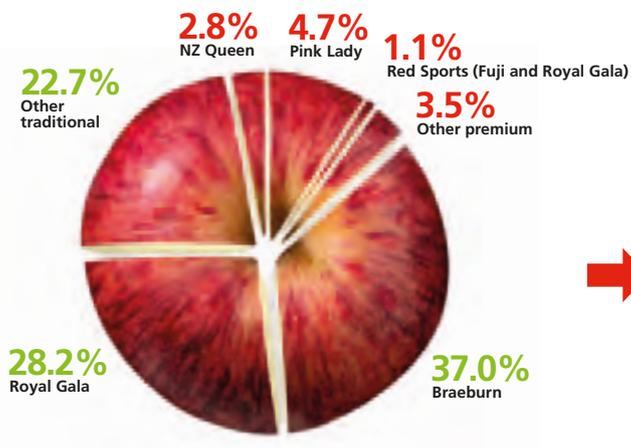


Exports by Market (2013)



In order to meet demand from these markets, Mr Apple is undertaking substantial expansion and re-development of its orchard variety mix.

Mr Apple Production (2009)



Mr Apple Target Production (2018)



■ Premium ■ Traditional

12. Based on FY2013 total own-grown and exported TCEs.



Mr Apple has 1,037 ha of planted apple orchard (of which it owns 68%), making it the largest apple orchardist in New Zealand. In 2013, Mr Apple exported 24% of New Zealand's total apple production.

New Zealand average apple yields are significantly above global competitors and Mr Apple consistently exceeds the New Zealand average.

**Average Yields per ha (2011–2013)**



Source: World Apple Review 2014

# New Zealand's largest independent cold storage network.<sup>13</sup>



## Scales' Storage & Logistics division:

- Provides essential supply chain services to major perishable food export industries, including cold storage, bulk liquid storage and international logistics services.
- Operates large infrastructure assets from strategic locations in most of New Zealand's primary agricultural regions.
- Services are highly integrated within key customers' operations:
  - Close proximity to customers' production assets;
  - Close proximity to key transport infrastructure (road, rail and port);
  - Integrated and customised reporting and software solutions; and
  - Excellent and long-standing customer relationships.
- Offers a cost effective alternative to customers building and operating their own storage capacity.
- Performance strongly correlated to continued growth in New Zealand's primary sector production, driven by increasing land under irrigation and general productivity improvements.

13. Based on installed storage capacity as at 31 December 2013.

# Clear strategy for growth.



## Horticulture

- Increasing apple exports to Asia and the Middle East
- Significant brand investment and focus to further raise Mr Apple's profile in offshore markets, specifically Asia and the Middle East
- Continued re-development of existing planted orchards toward premium varieties
- Mr Apple continues to examine opportunities to acquire or lease further apple orchards

## Storage & Logistics

- Growth in food exports of more than 6% annually is expected through to 2017. To meet this Scales plans to:
  - Open a coldstore in Auckland in late 2015
  - Expand its existing coldstore and liquid storage network through organic growth and acquisitions
  - Continued roll out of a highly successful coldstore software system which will improve customer integration
- Targeting new coldstore customers, particularly FMCG customers
- Considering complementary logistics business acquisition opportunities

## Food Ingredients

- Expansion of Meateor's raw material supply with operations commencing in Australia
- Expanding Meateor's product range to encompass alternative proteins
- Expanding Profruit's product range
- Considering complementary food ingredients acquisition opportunities

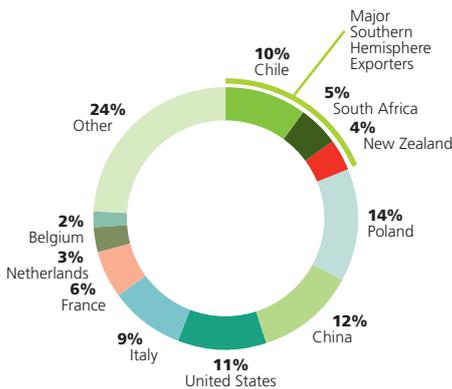
# 5. About Scales

## 5.1 Horticulture

### 5.1.1 Apple Industry Overview

Mr Apple is a New Zealand based global apple exporter. Accordingly, set out below is a brief description of the global and New Zealand apple industries.

#### Global Apple Export Volumes (2013)



Source: World Apple Review 2014

#### The Global Apple Industry

The majority of global apple production is for domestic consumption, with only approximately 11% of total global apple production exported. Conversely, New Zealand exports the large majority of its apple production. New Zealand was the eighth largest exporter of apples in 2013, accounting for approximately 4% of total global apple export volumes.

The global market is largely viewed as two separate markets, being the Northern and Southern Hemispheres. Southern Hemisphere exporters don't generally directly compete with Northern Hemisphere suppliers, due to peak supply periods differing. New Zealand competes most directly with Chile and South Africa.

In recent times, there has been a global shift in apple exports toward markets that are geographically closer to exporters. Historically, both New Zealand and South Africa had a dependence on markets in Western Europe and North America. New Zealand is now more focused on nearby Asian and Middle Eastern markets, while South Africa has been increasing exports to other African markets and Chile has increased exports to other South American markets.

Similarly in the Northern Hemisphere, China's exports are primarily to other Asian countries, while the major European producers sold approximately 90% of their apple exports to other European countries in 2013.

While apple consumption has been flat or declining in traditional markets, rapid increases in per capita income in many Asian countries has significantly increased demand for fresh apples. Strong economic growth is forecast to continue for emerging economies and in Asia in particular. As the modern retailing system continues to develop in emerging economies, demand for twelve month supply of product is also expected to increase.

Aside from China, where most apples produced are a single variety (Fuji), New Zealand, which exports a range of varieties, is the closest major Southern Hemisphere exporter to the fast growing Asian markets and is well placed to meet increasing demand in the region.

According to the World Apple Review 2014, New Zealand had higher apple yields per ha than any other country and the highest proportion planted in premium varieties.



### The New Zealand Apple Industry

The New Zealand apple industry has undergone a period of consolidation resulting in a smaller number of larger and more vertically integrated participants. With approximately 300 growers still remaining, this consolidation process is expected to continue. Mr Apple considers continued consolidation beneficial to the domestic industry.

Hawke's Bay is the largest pipfruit producing region in New Zealand, accounting for approximately 60% of the national planted area and exports, with favourable growing conditions and efficient access to shipping services. The Nelson region accounts for approximately 30% of the national planted area and exports.

Apple production in 2013 was up on 2012 due to generally good growing conditions. Dry, warm weather with high sunshine hours led to good fruit quality. 2014 production is also forecast to be strong but down on 2013.

The New Zealand apple market is adapting to increasing demand from Asian and Middle Eastern markets. The proportion of New Zealand apples exported to Asian and Middle Eastern markets has been steadily increasing, up from 24% in 2009 to 39% in 2013.

New Zealand growers export apples to a number of Asian and Middle Eastern countries, providing diversification while enjoying the premium prices achievable in these markets.

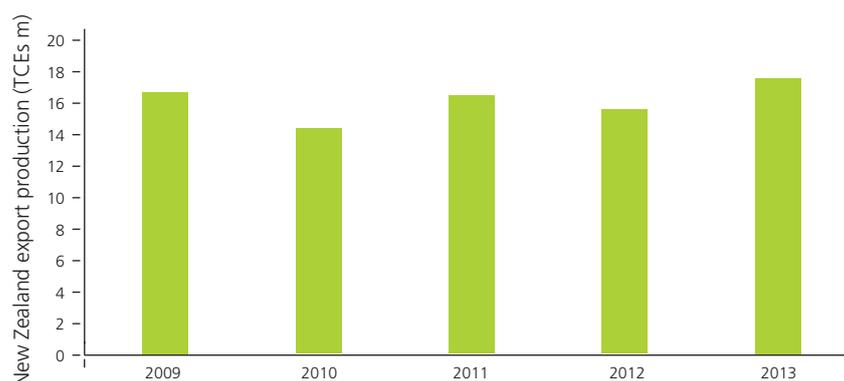
### Apple Pricing

New Zealand apples have historically achieved premium prices, highlighting the quality of New Zealand's fruit and its reputation with local customers.

Exchange rate movements are a factor for all apple exporters, and have recently caused headwinds for New Zealand and Chile in particular, whose currencies have remained strong during the global recession.

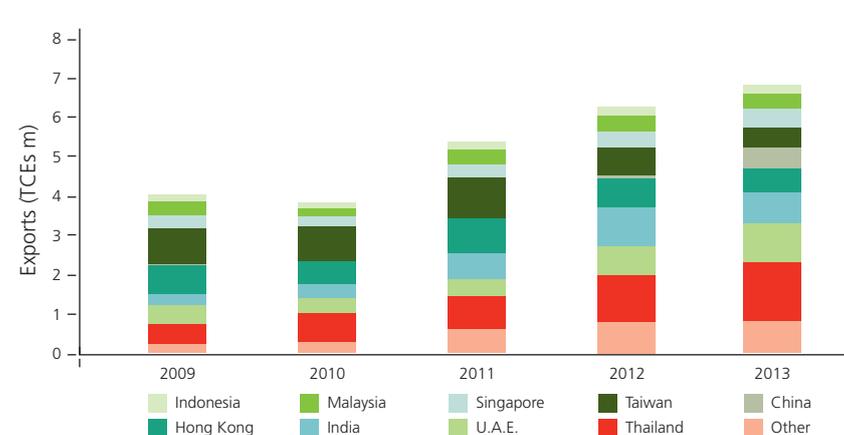
Despite this, New Zealand apple prices have trended up since 2009, and are forecast by MPI to remain at or above current levels. We consider that the growing proportion of fruit going to Asian and Middle Eastern markets, and the shortening of supply to traditional markets, is driving increased returns.

### New Zealand Exports (2009–2013)



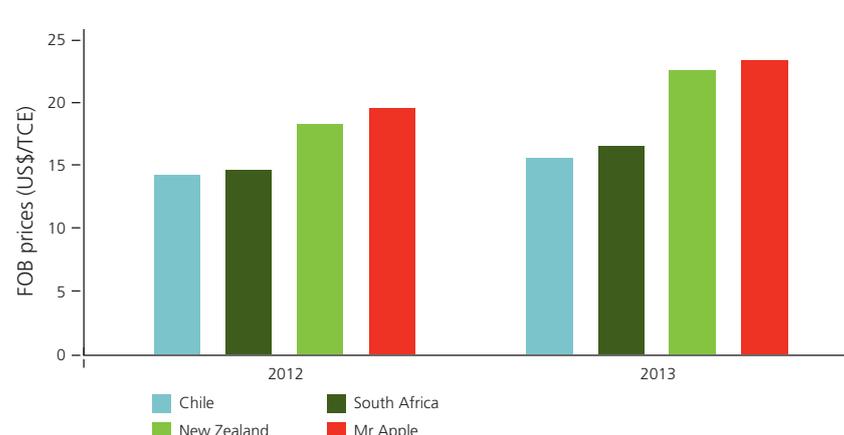
Source: Pipfruit Industry Statistical Annual 2013

### New Zealand Exports to Asia and Middle East



Source: Pipfruit Industry Statistical Annual 2013

### Estimated Seasonal Apple Export Prices



Sources: Pipfruit NZ, South African Revenue Service, Chile Customs

Notes: New Zealand and Mr Apple prices are converted to USD at the average foreign exchange rate between 1 March and 30 September in each year.

Annual periods between sources differ as below. Note that the large majority of fruit grown in the Southern Hemisphere season is sold prior to 30 September.

Chile and South Africa prices are for the year ending 30 September. Mr Apple prices are for the year ending 31 December.

The 2012 New Zealand price is for the year ending 31 December. The 2013 New Zealand price is for the nine months ending 30 September.

## 5.1.2 Mr Apple

Mr Apple is New Zealand’s largest integrated grower, packer and marketer of apples.<sup>14</sup> Mr Apple owns assets across all aspects of the supply chain.

All of Mr Apple’s growing and post-harvest activities are located in Hawke’s Bay. Operations include 1,037 ha of planted orchard, 3 packhouses (each of which has a small feeder coolstore attached) and 5 separate coolstore facilities.

In addition, Mr Apple packs, stores and markets apples on behalf of a number of external growers in Hawke’s Bay and markets on behalf of external growers in Nelson.

### Mr Apple’s Apple Cycle

## Planting & Growing



- Trees begin producing fruit for export after 24–36 months
- Depending on variety and other factors, trees increase production from 24–36 months until 72–84 months when full production is reached
- With good management (pruning, thinning, spraying and irrigation), trees can last in excess of 50 years

## Harvest



- Fruit samples are taken from individual blocks throughout the season to determine their maturity and the start date for harvest
- Trees are picked several times according to their maturity in terms of colour, sugar levels (brix) and starch conversion

## Packhouse



- Prior to packing, freshly picked apples are kept in a chilled environment
- Apples are sorted according to quality, size, colour and pack-types
- Low grade and defect apples are sent for processing or to the domestic market
- The majority of apples are packaged for export

## Coolstore



- Palletised fruit from the packhouses is coolstored awaiting export

## Export & Marketing



- Most apples are exported in 40 foot refrigerated shipping containers
- In-market branding and marketing activities underpin customer relationships and sales

Post-Harvest Operations

**Orchards**

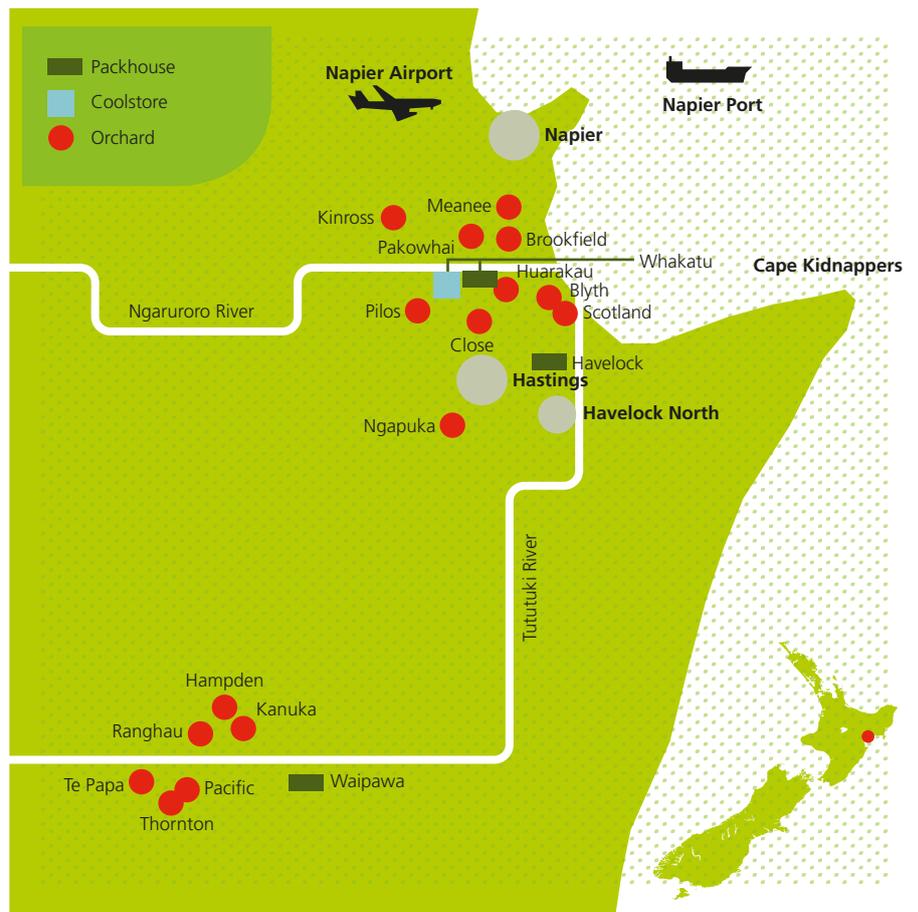
Mr Apple’s apple orchard area of 1,037 ha is made up of 707 ha that are owned and 330 ha that are leased. The orchards are run as 13 separate management units.

Orchards are geographically dispersed throughout Hawke’s Bay, mitigating against hail and other adverse weather events. Mr Apple has installed 100 wind machines for frost protection across its orchards.

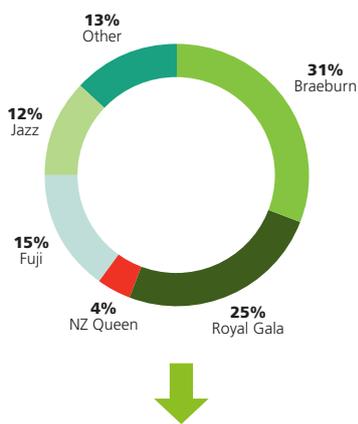
Mr Apple produced approximately 16% of New Zealand’s total apple exports in 2013. When combined with Mr Apple’s supply from external growers, Mr Apple marketed approximately 24% of total New Zealand apple exports in 2013.

Mr Apple has recently redeveloped a substantial portion of its orchards to the redder and sweeter varieties highly sought after in the Asian and Middle Eastern markets. In aggregate, approximately 270 ha have been replanted over the last 6 years, with 171 ha redeveloped since 2011. Replanting has been to NZ Queen, Pink Lady or redder varieties of, principally, Fuji and Royal Gala.

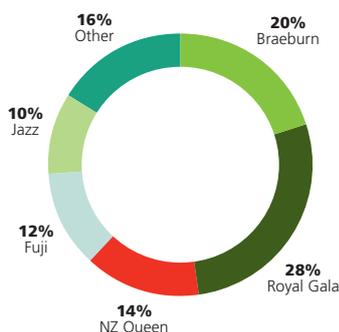
**Mr Apple Locations**



**Planted Orchard (2009)**

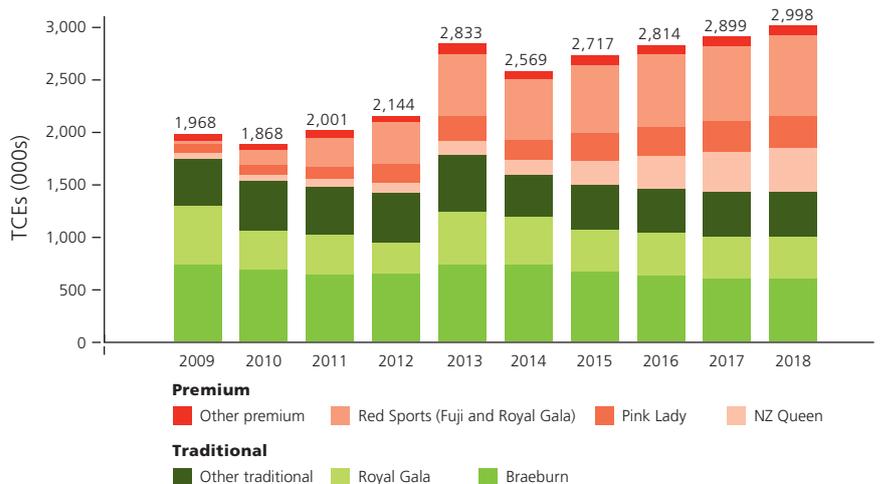


**Planted Orchard (2013)**



We expect maturing of these replanted and regrafted trees to continue until at least 2018. The chart below shows historical and target production by key variety.

**Historical and Target Mr Apple Production**



### Orchard Ownership

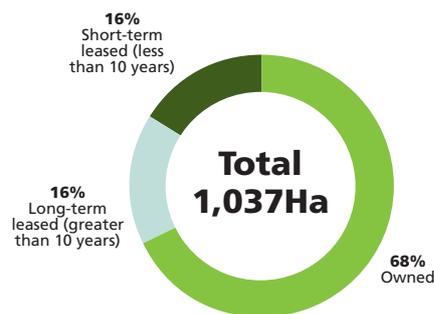
Historically, Mr Apple has secured its apple supply through ownership of orchards, complemented by leases for relatively small areas of adjoining or nearby land.

More recently, this model has been adjusted to incorporate some long-term leases with multiple rights of renewal which enable investment in redevelopment. Leases permit increased expansion of the orchard base while preserving capital for investment elsewhere in the business.

Two orchards, with approximately 155 ha of planted orchard, were leased in September 2012. Both leases provide for terms of 5 years, but carry multiple rights of renewal, securing the land for Mr Apple for 15 years in one case and 25 years in the other.

Overall, leased orchards have a weighted average lease term of more than 11 years. We consider that the current mix of long-term leased and owned land, complemented by short-term leases, provides the right balance of supply control.

### Interest in Orchards



### Orchard Management and Technology

A core focus of the business has been on improving fruit quality and yield per ha. For example, Mr Apple has invested in the use of Extenday® reflective groundcover fabric to add value by improving apple colour and quality. Mr Apple runs a team of highly experienced, passionate, committed and long-serving orchard managers who have been with the group for almost 20 years on average.

All of Mr Apple's orchards have water consents in place that provide for adequate irrigation based on crop water requirements, soil type, climate data and allowing for a 9 out of 10 year

reliability. Consents are generally issued for 20 years and approximately 80% of Mr Apple's consents by land area still have 10 or more years to run before requiring renewal. Approximately 14% of Mr Apple's consents by land area will require renewal in the next 5 years. Mr Apple seeks to maintain a strong working relationship with the relevant regulatory authorities and has successfully renewed all consents as required to date.

Mr Apple has continually refined its practices to drive higher yields whilst minimising costs. Mr Apple has consistently outperformed national and global average yields for a number of years.

### Mr Apple's Leading Orchard Technology

Mr Apple has designed its own proprietary software system that integrates all aspects of the apple cycle. The software provides complete traceability of fruit from a single bay within a block of an orchard to the end-customer and is a full inventory management system. This information enables Mr Apple to:

- Measure individual orchard performance and identify underperforming orchards for assistance in identifying and isolating causes of reject fruit to prevent recurrence.
- Accurately measure the effectiveness of new techniques and management processes. All orchard managers have mobile devices to view key orchard bay statistics and targets.
- Manage inventory based on key attributes such as variety, size, fruit quality to ensure Mr Apple meets all customer, MPI and market access requirements.
- Maintain an electronic and integrated orchard spray programme and on-site laboratory results to ensure we meet all market access and customer fruit quality requirements.
- Electronically order, scan and track usage of fruit packaging inventory.

The use of this technology allows Mr Apple to provide a superior service to customers, which ultimately drives price premiums.

### Average Export Yield per ha



## Harvest

Mr Apple harvests fruit only when it meets stringent maturity standards, including brix (target sugar levels), firmness, starch, and colour. Mr Apple has two on-site laboratories to assess fruit quality and maturity, which ensures apples last longer and store better, with limited loss in quality. Targeting particular maturity to individual customers is important to meet customer requirements and eliminate quality claims.

## External Growers

In addition to fruit grown from its owned or leased orchards, Mr Apple sources apples from a number of external growers. In FY2013 32% of Mr Apple exports were supplied by external growers. Mr Apple works with external growers to help them plan and develop their orchard, as well as to improve their yields and meet end-customer requirements. Mr Apple provides advance payments to these growers, which is critical funding for their working capital requirements. Finally, Mr Apple assists external growers through its purchasing power and group discounts, helping reduce external grower orchard costs. Many of Mr Apple's external grower relationships are longstanding, with some supplying us for over 20 years.

## Post-harvest

Post-harvest, apples are chilled, packaged, coolstored, then exported. Lower grade apples are sent to be processed or to the local market. Efficiency in post-harvest operations is key to Mr Apple's profitability. Operations have been streamlined to ensure post-harvest operations run at full or near full capacity.

Mr Apple operates three modern and efficient packhouses, all of which are located in Hawke's Bay, including New Zealand's largest packhouse located in Whakatu.

Mr Apple operates five coolstore facilities in Hawke's Bay, one of which is owned with the remaining four leased. Mr Apple also has a service contract with ENZA to provide coolstore services. In addition Mr Apple has a small feeder coolstore attached to each of its three packhouses.

Overall, Mr Apple has the peak capability of coolstoring over 1 million packed TCEs that are awaiting export, and approximately 85,000 freshly picked apple bins, giving Mr Apple one of the largest apple coolstore capacities in New Zealand.

The coolstores have been customised to meet Mr Apple's requirements and ensure product quality is maintained throughout the process. For example, our coolstores have significant SmartFresh™ capacity which controls ripening while maintaining quality.

Mr Apple has agreed purchase options over two sites adjacent to its current head office and packhouse facility in Whakatu should Mr Apple decide to expand its post-harvest operations at this location. The sites, which are to be created on subdivision, can be acquired (separately or together) at Mr Apple's option for their estimated market values of \$513,500 and \$526,000 (plus GST) respectively at any time up until 31 December 2015 (subject to the subdivision being completed), from George H Investments Limited (previously the Investments division of Scales until its demerger in April 2014).

## Exports and Pricing

In 2013 Mr Apple exported 4.2 million TCEs of apples, representing 24% of New Zealand's apple exports. The majority of Mr Apple's export requirements are handled by Scales Logistics.

## Recognised Seasonal Employer Scheme

**Mr Apple has a very large seasonal component to labour costs, which peaks at around 1,700 staff during late summer/autumn for an average of two months.**

Mr Apple played a significant role in helping establish the RSE scheme in 2007 and was the first employer to be accredited to bring workers to New Zealand from the Pacific Islands. Annually Mr Apple brings in over 800 RSE Scheme workers from the Pacific Islands, arranging all travel and administration requirements, onsite accommodation and local transportation.

Mr Apple has been successful in retaining RSE Scheme workers over the years, with a return rate of 75% for the 2014 season, significantly enhancing labour efficiency.

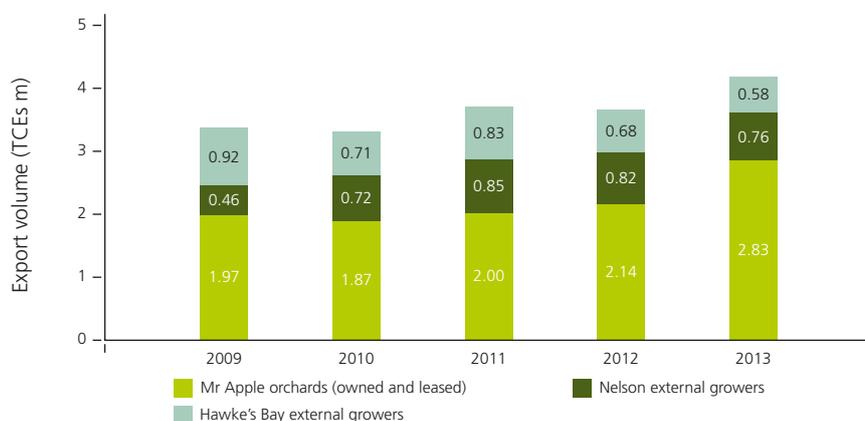
Over the last few years the number of permanent positions within Mr Apple has also increased significantly from 162 in 2008 to 272 in 2014 due to the growth in the business.

Mr Apple exports predominately to Asia, the Middle East, the United Kingdom, Europe and North America. The last five years has seen exports to Asian and Middle Eastern markets increase considerably. These markets are now our largest export destination by volume.

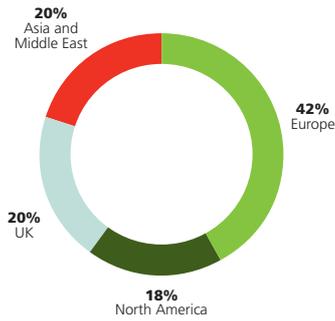
Asian and Middle Eastern markets pay a premium for high coloured (redder) New Zealand apples. High colour sweet varieties are commanding premiums of up to 50% above traditional New Zealand varieties.

The growing proportion of fruit going to Asian and Middle Eastern markets, and the shortening of supply to traditional markets, has enabled Mr Apple to renegotiate more favourable terms with the traditional consignment markets (the United Kingdom, Europe and North America) such as minimum guaranteed prices. These terms lock in a fair price, with an ability to participate in any upside if market conditions improve.

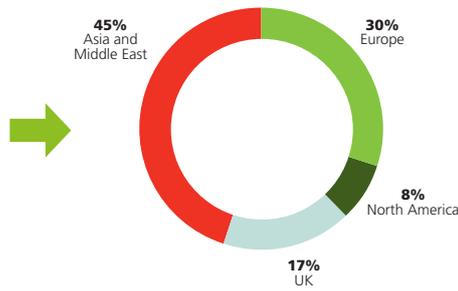
## Export TCEs by Source of Supply



**Mr Apple Exports by Market (2007)**



**Mr Apple Exports by Market (2013)**



**Customers**

Mr Apple has long-standing relationships with high quality global customers accessing international supermarket chains. Mr Apple works closely with its customers to meet specific customer specifications and to remove costs from the supply chain. Mr Apple has also invested in specific packing technology for customers, such as packing into customer branded bags eliminating double handling costs. This ultimately creates value for both the customer and Mr Apple. During the 2013 season, Mr Apple managed orders for 137 customers across 39 countries.

**Marketing and brand**

The Mr Apple brand is recognised and respected globally for the high and consistent quality of its apples and the reliability of supply.

Mr Apple has recently embarked on a significant brand investment in partnership with two other Hawke’s Bay growers to develop the ‘Diva’ brand of Fuji apples which will further raise the profile of premium varieties in offshore markets, specifically in the Asian and Middle Eastern markets.

Mr Apple takes a commission on the price it achieves for apples sold on behalf of external growers (net of freight). Freight, storage and other costs are recovered across external growers on a pro-rata basis.

**Fern Ridge Produce**

Mr Apple acquired a 50% ownership interest in Fern Ridge Produce in January 2013. Fern Ridge Produce specialises in the international marketing and export of apples and other produce such as kiwifruit and citrus fruit. Fern Ridge Produce exported 800,000 TCEs in the 2013 season.

With a very experienced team who started exporting produce in 1997, Fern Ridge Produce secures apples from external growers who are seeking a firm price ‘on the day’ at the orchard gate.

**Why is controlling supply critical?**

**1. To meet customer expectations for quality, consistency and timing**

Mr Apple has the ability to micro-manage its orchard down to each individual bay (of which there are approximately 1,000). Our focused management permits customised solutions to meet the varying requirements of a wide-range of discerning customers.

**2. To control apple volumes, which underpins profitability in post-harvest operations**

A consistent volume is critical to maximising efficient utilisation of post-harvest facilities, including coolstores and packhouses.

**3. To ensure we continue to supply varieties that meet emerging market tastes and requirements**

Mr Apple is able to quickly build the supply of, and market for, premium varieties. Small, non-integrated growers may not have the resources to redevelop their orchards and may miss these opportunities.

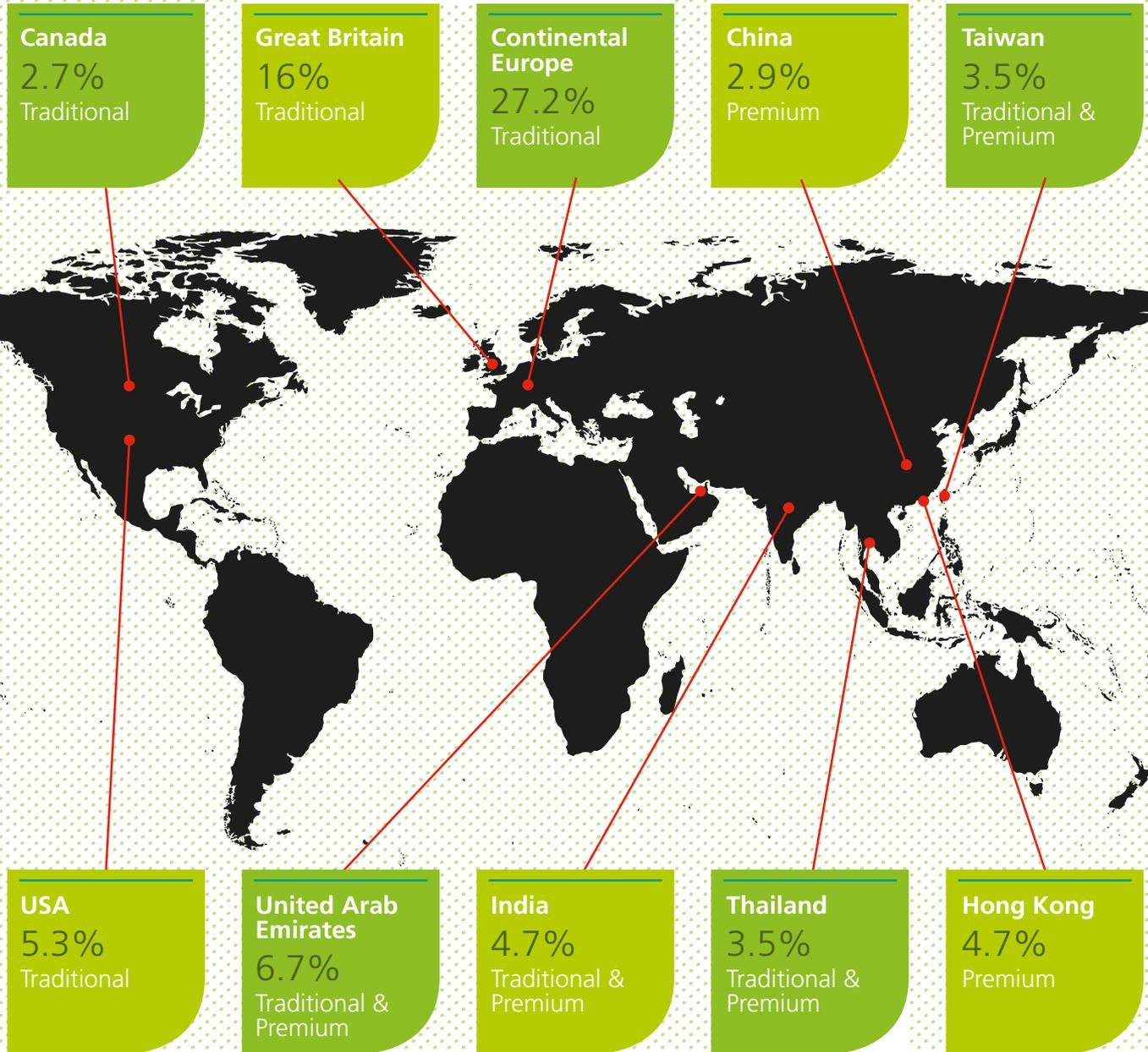
## Top 10 Markets by Volume

The map below illustrates our top 10 markets by percentage of volume in 2013 and identifies the majority of exports to that market by variety type.

Longstanding relationships with major retail customers.

Premium prices paid for NZ Queens.

With high per-capita consumption of apples and a recently agreed Closer Economic Partnership Agreement improving the relative competitiveness of New Zealand to other Southern Hemisphere countries, Mr Apple expects to achieve strong growth in sales.



New Zealand fruit has preferred access to Thailand due to our Free Trade Agreement, with almost no fruit purchased from other Southern Hemisphere producers.

## 5.2 Storage & Logistics

Polarcold and Whakatu Coldstores, which are part of our Storage & Logistics division, are New Zealand based cold storage providers. Accordingly, set out below is a brief description of the New Zealand temperature controlled storage industry within which we operate.

### 5.2.1 New Zealand Temperature Controlled Storage Industry Overview

Temperature controlled storage is an essential component of the supply chain for perishable food producers exporting their products.

#### Demand for Temperature Controlled Storage

Domestic temperature controlled storage demand is driven by New Zealand’s perishable food production and requirements for continuous cold chain handling.

Over the past 23 years total key perishable food exports (in tonnes) has steadily increased. In 2013, total key perishable food export volume of 2.5 million tonnes was almost 65% higher than in 1990.

#### Temperature controlled storage terminology

##### Coolstores / Chillers

**Operate from  $-1^{\circ}\text{C}$  to  $15^{\circ}\text{C}$**

– Used to hold product at this temperature (for example cheese, meat, flower bulbs and fruit).

##### Coldstores / Freezers

**Operate from  $-25^{\circ}\text{C}$  to  $-12.2^{\circ}\text{C}$**

– Used to keep product frozen (for example meat, fish and frozen consumer foods).

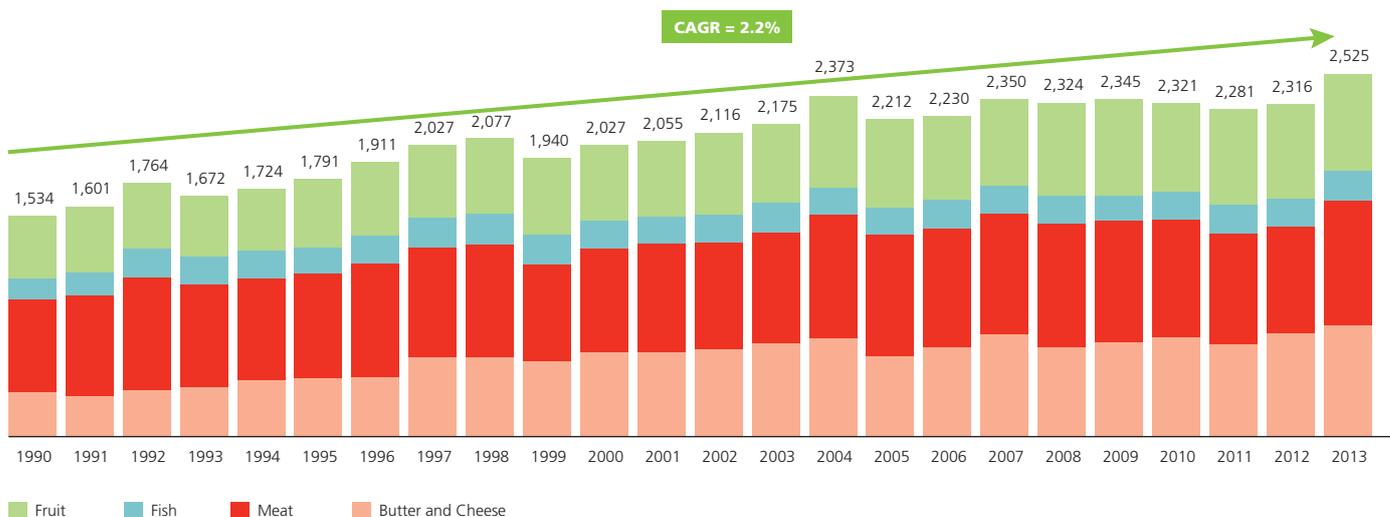
##### Blast Freezers

**Operate down to  $-29^{\circ}\text{C}$**

– Blast freezing is an essential service for meat customers to ensure compliance with MPI requirements.

– High-volume / high-velocity airflow generated from specially designed blast freezing rooms is used to rapidly freeze product as required.

#### New Zealand Perishable Food Exports (Tonnes 000s)



Source: Statistics New Zealand

### Key Factors Driving Perishable Food Production

New Zealand's perishable food production is driven by the following key factors:

– **Demand for New Zealand food:** demand for New Zealand food is increasing and is expected to continue to increase. This is being driven principally by increasing population, urbanisation and wealth in key Asian markets.

– **Irrigation projects:** New Zealand's total land under irrigation increased by 17% between 2007 and 2012 to 721,700 ha. This trend looks likely to continue for the foreseeable future with proposed schemes to collectively increase total irrigable land by a further 655,000 ha. On average, irrigated farmland generates three times the production of an equivalent area farmed under dry land systems.

– **Improvements in agricultural productivity:** Over time, technological developments and improving farming practices have enabled significant growth in yields. For example, average kilograms of milk solids per farmed ha in New Zealand have increased approximately 19% over the last decade.

### Example Irrigation Project: The Central Plains Water Enhancement Scheme

The Central Plains Water Enhancement Scheme will irrigate 60,000 ha in the Canterbury Plains, linking the Waimakariri and Rakaia Rivers via a 56 km canal. Construction on Stage 1 (encompassing 20,000 ha through a 17 km canal running from the Rakaia River) commenced in March 2014, with water expected to be made available in time for the 2015/2016 irrigation season.

### Why Store with an Independent Provider?

Whilst some large food producers maintain their own in-house temperature controlled storage facilities, there has been an increasing trend in some sectors (for example, the meat, horticulture and dairy sectors) towards outsourcing. Key advantages of independent storage are:

- **Operating Efficiency:** independent coldstores are able to combine the requirements of a range of producers with varying production windows to optimise utilisation, often providing storage at a lower cost than if the customer were to do it themselves.
- **Avoiding upfront investment:** establishing new coldstorage facilities involves a large capital outlay in land, buildings and refrigeration and warehouse management technology.
- **Superior service:** independent coldstore providers run highly sophisticated warehouse inventory systems, providing vital supply chain support.
- **Proximity to key transport infrastructure:** independent coldstores are frequently located in close proximity to key transport infrastructure including ports, rail and highways.
- **Regulatory compliance:** independent coldstores focus on changes in the regulatory environment in New Zealand and key export markets, allowing customers to reduce their regulatory burden.



## 5.2.2 Polarcold and Whakatu Coldstores

Polarcold and Whakatu Coldstores offer essential supply chain services for some of New Zealand's largest primary exporters, importers and FMCG businesses.

Scales currently runs two coldstore operations. Between Polarcold and Whakatu Coldstores, we offer customers access to a near nationwide service. Following Polarcold's expansion to Auckland in late 2015, Scales will have one of the broadest temperature controlled storage networks in New Zealand.

### Planned Auckland Expansion

**A new purpose built coldstore for bulk storage and FMCG storage is planned to commence operations in late 2015. The facility will be located in South Auckland, linked to the rail network, giving us one of the broadest temperature controlled storage networks in New Zealand.**

The coldstore is planned to have a total storage capacity of 95,700m<sup>3</sup>, increasing our existing storage capacity by 16%. Its utilisation is supported by a 10 year contract with a key customer. Completion of the coldstore remains conditional on Scales and its landlord entering binding construction contracts within budget estimates by the end of October 2014. The costs associated with the Auckland coldstore project are included in the FY2015F forecast. The Auckland coldstore is not expected to become operational until late 2015 and, as a result, the forecast revenue from the project is limited in the PFI period. Sensitivity analysis in relation to the Auckland coldstore project is contained in the PFI.

After the rollout of Whakatu Coldstores licensed IT system at Polarcold, and subject to regulatory approvals, Polarcold and Whakatu Coldstores intend to combine under the single trading name, 'Polarcold'.

Polarcold and Whakatu Coldstores' cold storage network in New Zealand is larger than any other independent temperature controlled storage provider.<sup>15</sup> Generally, competition is highly localised to each production region.

Polarcold and Whakatu Coldstores' facilities are strategically located near customers' production facilities, ports and major transport infrastructure. In addition, many of the coldstores have integrated rail-sidings as well as customised racking solutions. All key regions except Kerepehi also offer blast freezing services which are especially important for meat processing customers.

Polarcold has agreed a purchase option over a site adjacent to the coldstore at Canada Crescent in Christchurch and Whakatu Coldstores has agreed a purchase option over a site adjacent to the coldstore at Whakatu Industrial Park (to be created on subdivision) should either business decide to expand its cold storage operations at the relevant location. The sites can be acquired at the option of Polarcold and Whakatu Coldstores respectively for their estimated market values of \$2,300,000 and \$370,000 respectively at any time up until 31 December 2015 (subject to completion of the subdivision in the case of the Whakatu site), from George H Investments Limited.

### Facilities Management

The storage, transport and export of food is highly regulated in New Zealand and internationally. Polarcold and Whakatu Coldstores' facilities are regularly audited by customers and by MPI as part of its Official Assurance Programme. The majority of Polarcold and Whakatu Coldstores' facilities hold the highest level of MPI certification available.

Polarcold and Whakatu Coldstores run all sites under a regime of planned and predictive maintenance to meet customer and regulatory requirements.

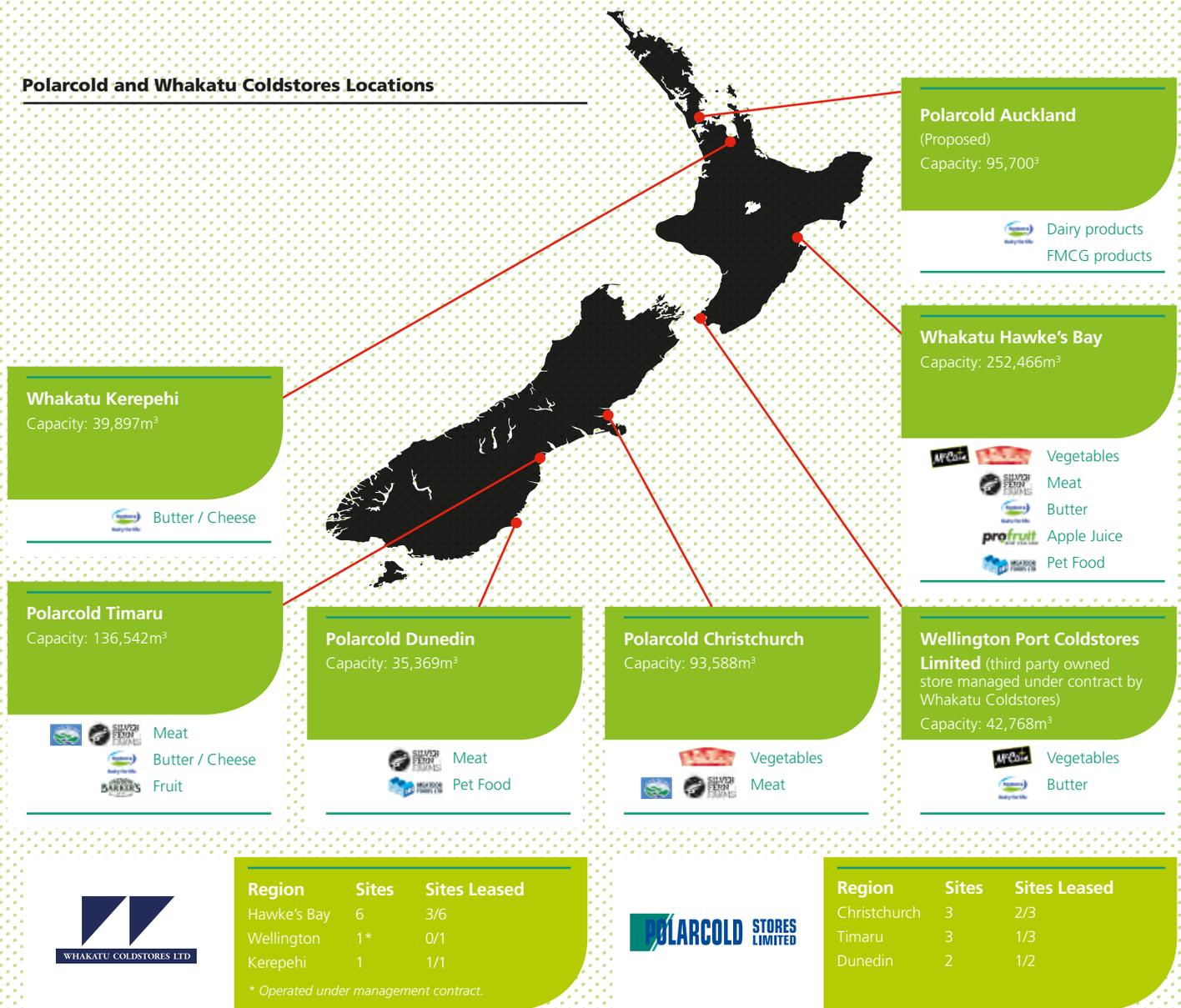
In addition, we continually monitor and evaluate technological developments for operational efficiencies. For example, during 2014, Polarcold is installing state-of-the-art engine room technologies to improve energy usage at its largest coldstore in Timaru, at a cost of approximately \$3 million. Similar upgrades offshore have demonstrated large efficiency gains.

### Utilisation and Product Turnover

Polarcold and Whakatu Coldstores store a variety of products with varying peak production timings and stock rotations. Whilst storage requirements still peak during the height of the primary sector production season (November to May), FMCG and seafood customers, who have relatively consistent storage requirements, maintain minimum stock levels over the winter months.



**Polarcold and Whakatu Coldstores Locations**



We charge customers both for storage space used and product handling. Accordingly, Polarcold and Whakatu Coldstores' revenues are ultimately driven not just by utilisation, but also by customer product turnover.

**Customers**

Scales has a long history of providing critical supply chain services to some of New Zealand's largest food producing companies. The average length of relationship for Scales' top five temperature controlled storage customers is now well over 30 years.

**Major customers with tenure greater than 15 years**

Customer	% of FY2013 Revenue
Customer A	22.2%
Customer B	19.8%
Customer C	14.4%
Customer D	13.9%
Customer E	3.4%

As these relationships have progressed, our operations have become more intertwined with our customers. Many of our customers have large production facilities in close proximity to our coldstores.

Whakatu Coldstores has a sophisticated and integrated warehouse management system for all its clients. Some of their larger customers' systems are fully integrated to this warehouse management system. The system provides visibility of clients' inventory and transactions, as well as automated order picking requests to ensure timely and efficient load-outs.

The sophisticated and robust warehouse management software solution used by Whakatu Coldstores will be rolled out across Polarcold's operations in 2015. Following the completion of the software rollout programme, Polarcold and Whakatu Coldstores will be able to offer a single, comprehensive and proven inventory management solution to our customers.

### 5.2.3 Liqueo

Liqueo provides liquid bulk storage and aligned value-added services for the storage of tallow, edible and non-edible oils, liquid stock foods, and liquid waste products. Liqueo also offers services to test, bleach, and / or drum tallow.

**Liqueo primarily services customers in the meat and dairy industries, as follows:**

- **Imports:** Edible oils, non-edible oils, and other liquids used principally as stock feeds are shipped to the Timaru and Napier ports and transferred into Liqueo's storage tanks. Trucks collect the liquids from Liqueo's tanks and distribute to the end user.
- **Exports:** Liqueo's customers purchase tallow from the factory gate. They subsequently arrange transportation to Liqueo's storage tanks in Timaru and Hawke's Bay. Tallow is later carried offshore for manufacturing uses. Tallow can be pumped direct to ship or placed in shipping containers using large 20 KL bladder bags, 1 KL plastic containers or 200L drums.

**Facilities**

Liqueo's operations are strategically located in two of New Zealand's prime agricultural regions:

- **Timaru:** provides an extended catchment area covering the vast majority of the South Island extending from the top of the South Island to Balclutha. Liqueo has 33 tanks at Timaru with a total installed peak capacity of 15,400 MT. Liqueo has a stainless steel food-grade pipeline and regular black steel pipeline, both running to the wharf to enable direct loading into or out of vessels.
- **Hawke's Bay:** provides a catchment area extending from Hawke's Bay to as far away as New Plymouth. Liqueo's Hawke's Bay operations are split across two locations, the facilities at the Whakatu Industrial Park, and the more recently developed facilities at the Port of Napier where Liqueo has a pipeline running to the wharf for direct loading to or from vessels. Liqueo has 24 tanks across Hawke's Bay with a total installed peak capacity of 6,800 MT of product.

Liqueo has installed additional capacity at both Timaru and Hawke's Bay to ensure it is positioned to capture growth in volumes. As part of Liqueo's on-going maintenance programme, a new boiler was recently installed in Timaru.

**Customers**

Liqueo's customers are typically bulk liquid importers and exporters with substantial liquid storage requirements. Liqueo provides these customers with:

- spare capacity for casual storage requirements;
- efficient and effective systems to rapidly move product from ship-to-container or container-to-ship to limit sea freight and berthing costs; and
- clean, airtight and separated storage which is important for most bulk liquids that can easily spoil should they be exposed to air, and in all cases would be contaminated should they come into contact with the residue of other products. Liqueo arranges for the separate storage of a wide range of bulk products and multiple grades within each product category.

Liqueo's bulk liquid facilities are leased to key customers under minimum volume term contracts. In aggregate, these lease arrangements cover more than 40% of the installed capacity across Liqueo's storage network. The remainder (approximately 60%) is available for casual or spot storage depending on the ebb-and-flow of contracted requirements.

### 5.2.4 Scales Logistics

Scales Logistics, based in Christchurch with branches in Tauranga and Napier, continues Scales' 100 year involvement in the New Zealand shipping industry.

Scales Logistics provides logistics services to exporters and importers of perishable products including fish, fruit and vegetables. Mr Apple and Meateor are major customers.

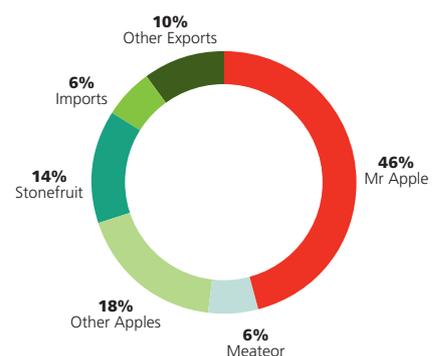
In 2013, Scales Logistics expanded into air-freighting solutions by establishing Balance Cargo. Balance Cargo specialises in providing air freight logistics services to a full range of export and import customers.

Scales Logistics provides sea freight services to Mr Apple, Meateor and Fern Ridge Produce.

Sea freight costs are one of the major expense items for these businesses given their nature as exporters. Scales Logistics is able to use strategic volumes to negotiate favourable container shipping rates.

Scales Logistics continues to expand its customer base as more horticulture exporters seek out the lower sea and air freight costs Scales Logistics can procure. Expansion into the upper North Island/Auckland market is the next major initiative for Scales Logistics to provide a nationwide service.

**Composition of Scales Logistics' Gross Margin (2013)**



## 5.3 Food Ingredients

Scales' Food Ingredients division consists of:

- Meateor, which processes and markets pet food ingredients for the global pet food industry; and
- A 50% ownership interest in Profruit, a leading processor of apples and kiwifruit into juice concentrate.

Both are complementary to Scales' other businesses.

### 5.3.1 Meateor

Meateor processes and markets pet food ingredients for the global pet food industry.

Meateor operates from two sites in New Zealand, in Whakatu and Dunedin, with a combined production capacity in excess of 30,000 MT per year. These facilities provide North and South Island coverage. This extended catchment area incorporates a wide spread of supply from New Zealand's meat processing facilities.

Meateor's products are marketed to large multi-national pet food producers, for inclusion in their premium pet food ranges.

Demand for pet food is growing globally, with an increasing number of pet-owners demanding better quality pet food. Global cat and dog food retail sales grew over 21% to USD\$69 billion from 2008 to 2013.

The New Zealand meat industry's disease free status allows preferential access into key markets and is driving growth in its pet food industry, particularly due to the availability and reliability of meat based ingredients and innovation of retail ready products.

The two main products processed by Meateor are mechanically deboned meat (MDM) and offal (livers, lungs, hearts, tripe etc). Meateor predominantly processes lamb material, but also processes venison, mutton and beef. Raw material is sourced from plants that process export grade, human edible meat. Most of Meateor's raw material is supplied under rolling 12 month contracts providing stability in product flows. Meateor has also recently agreed arrangements to source raw materials from an

external processor in Australia, diversifying its supply base.

Meateor has a well established and stable customer base including two of the largest multi-national pet food producers. Lamb MDM, in particular, is a key ingredient in some of their premium pet food ranges. In addition, Meateor is trialling alternative proteins to generate new revenue streams with its growing customer base.

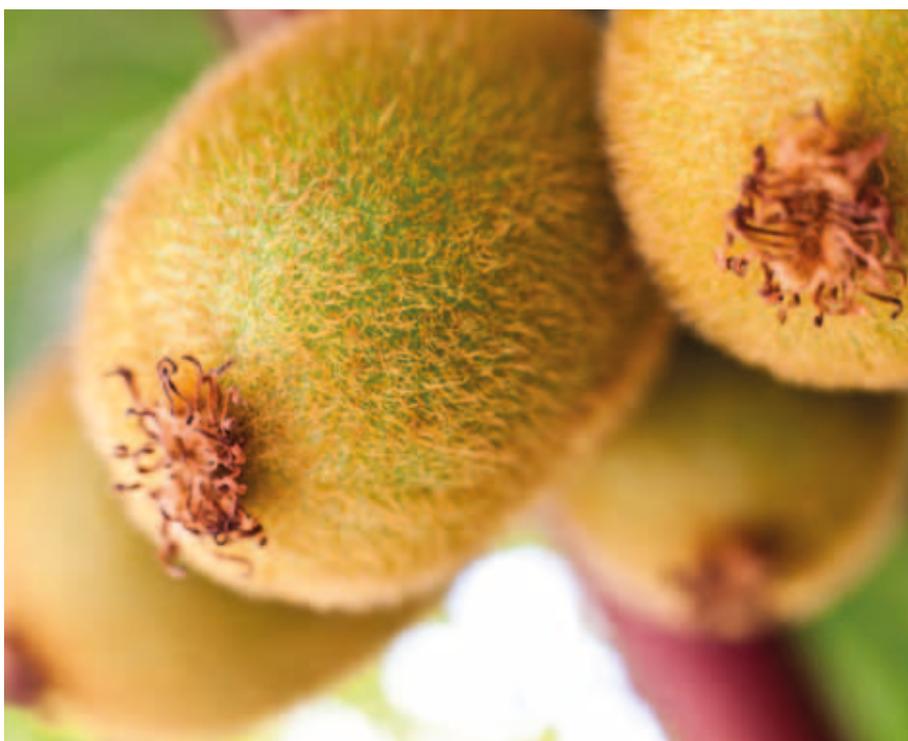
The majority of Meateor's product is sold under rolling 12 month sales contracts – broadly matching the duration of its raw supply contracts.

### 5.3.2 Profruit

Scales has a 50% shareholding in Profruit, which processes apple and kiwifruit into fruit juice concentrate for domestic consumption and export to large food and beverage companies, mainly in the USA, Australia and Asia.

The other 50% shareholding is held by Bostock Group Limited, which is a large family owned group of agriculturally focused companies based in Hawke's Bay.

Profruit processes approximately 44,500 MT of non-export grade apples and 4,100 MT of kiwifruit into juice concentrate annually. In 2013, Profruit sold 5.4 million litres of juice concentrate. Mr Apple supplies approximately 44% of Profruit's apple needs, with a further 17% provided by Bostock Group Limited.



## 5.4 Board & Senior Management

Scales has established a strong Board of Directors with a balance of skills and experience relevant to Scales and its diverse businesses. The Board currently comprises Jon Mayson, Andy Borland, Tim Goodacre, Nick Harris, Mark Hutton and Alan Isaac.



## Board of Directors

### Jon Mayson

#### Independent Chairman

Jon was elected to the Board as Chairman in 2012, having been appointed chairman of Scales' Storage & Logistics division in 2011. Jon was previously the CEO of the Port of Tauranga for 9 years from 1997 to 2005 and oversaw the Port's expansion to become New Zealand's largest export port. He is also chairman of Fronde Systems Group Limited, C 3 Limited, Ziwipeak Limited, Trevelyan's Pack and Cool Limited, Martin Aircraft Technology Limited and Titanium Technologies, and has previously been chairman of New Zealand Trade and Enterprise. Jon is also a director of Chiefs Limited and Te Arawa Group Holdings Limited. He was made a Companion of the New Zealand Order of Merit (CNZM) in 2006 for his services to the shipping industry and export.

### Nick Harris

#### Non Executive Director

Nick was elected to the Board in 2014, having been appointed a director of both Scales Storage & Logistics division and Meateor in 2011. Nick was previously the Managing Director, and is one of the founding shareholders of Hellers Limited, New Zealand's largest bacon, ham and small goods company. Nick is a shareholder and director of several private companies. He also chairs Enterprise North Canterbury Trust and is deputy chair of the Canterbury Hockey Association.

### Andy Borland

#### Executive Director

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 a director of apple and pear industry body Pipfruit New Zealand Incorporated, a director of George H Investments Limited and has had an 18 year involvement with Central Otago deer and beef cattle breeding and fattening farming company Loganbrae Limited. Scales was previously a subsidiary of Southbury Group Limited, majority owned by entities associated with Allan Hubbard. Other entities owned by Southbury Group included South Canterbury Finance Limited, Dairy Holdings Limited (as to a 35% stake only) and Helicopters (New Zealand) Limited. From September 2007 to June 2010 Andy was engaged to provide management services to Southbury Group, the entities owned by it and New Zealand Wool Services International Limited (an entity associated with Allan Hubbard). As part of these arrangements he was a director of Southbury Group Limited (up until June 2009) and Tyrone Estates Limited, Belfast Park Limited and Braebrook Properties Limited. These four companies have subsequently been placed into receivership and then liquidation in connection with the receivership of South Canterbury Finance Limited.

### Mark Hutton

#### Non Executive Director

Mark was elected to the Board in 2011, initially as Interim Chairman. He is a founding director and chairman of the investment committee for Direct Capital funds, and has a background in private equity, specialising in portfolio management, investments, acquisitions and capital funding. Mark is currently a director of a number of Direct Capital entities and portfolio companies, George H Investments Limited, Energyworks Holdings Limited, Hiway Group Limited, Stratex Group Limited and New Zealand King Salmon Investments Limited. Mark is also Chair of Scales' Remuneration Committee.

### Tim Goodacre

#### Non Executive Director

Tim was elected to the Board in 2014, having been appointed Chairman of Scales' horticulture division in 2011. He has been involved in agribusiness for nearly forty years and was CEO of Zespri International from 2003 to 2007. Tim is currently a director of HSR Group Pty Limited and Featherston Resources Limited and has recently been appointed chairman of The Nutritious Kiwifruit Company Limited, which is a consortium of New Zealand kiwi fruit suppliers selling under a new single brand based around nutrition and health on the Australian market. Featherston Resources Limited was placed into voluntary administration by the board and a group of shareholders is seeking to bring an action against the directors and others.

### Alan Isaac

#### Non Executive Director

Alan was elected to the Board in 2014. Alan was the President of the International Cricket Council until June 2014 and is currently Chairman of Acurity Health Group Limited, Chairman of McGrathNicol and Partners NZ, a director of Opus International Consultants Limited, AKA Investments Limited, Murray Capital General Partner Limited, New Zealand Vault Limited, Rakaia Finance Limited and Rakaia Investments Limited. In addition, he is the Chair of or advisor to a number of independent committees. Alan has an extensive background in the accounting and finance field and is a former national chairman 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 also Chair of Scales' Audit and Risk Committee.

**From L-R:** Andy Borland, Alan Isaac, Nick Harris, Jon Mayson, Tim Goodacre, Mark Hutton.

## Senior Management



**From L-R:** Stephen Foote, Kent Richie, Steve Kennelly, Andrew van Workum, Kevin Cahill, Andy Borland.

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### **Andy Borland** Managing Director

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Andy joined Scales in 2007 and became Managing Director in 2011. See Andy's full biography under the heading "Board of Directors".

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### **Kevin Cahill** CEO Polarcold and Liqueo

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Kevin originally joined the staff of Polarcold in 1978 as Works Manager, when the company was known as SC Co-op Cool Stores Limited. Prior to this he was employed by Waitaki Farmers Freezing Co.

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### **Steve Kennelly** Chief Financial Officer

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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 the New Zealand Institute of Chartered Accountants.

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### **Stephen Foote** CEO Whakatu Coldstores and Meateor

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Stephen has been with the Whakatu Coldstores' group of companies in various management roles for 20 years. Prior to joining Whakatu Coldstores, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

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### **Andrew van Workum** CEO Mr Apple

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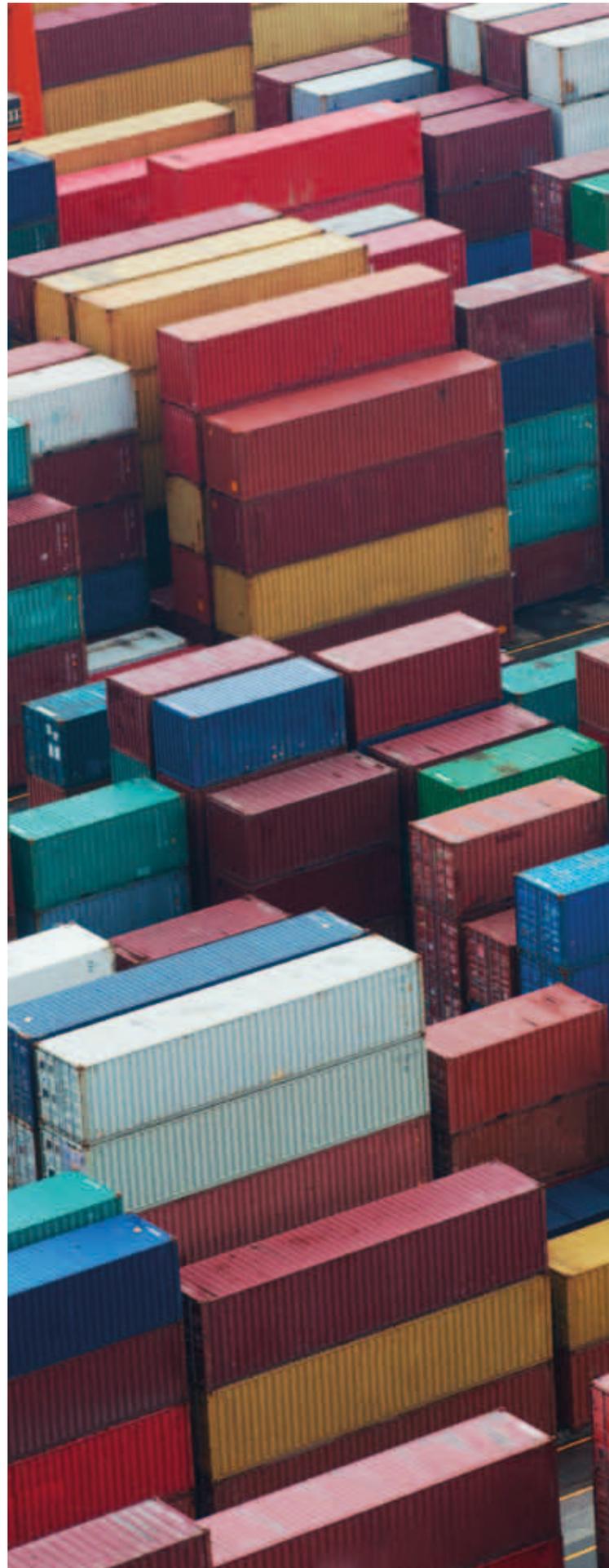
Andrew has worked in the apple industry for nearly 30 years. He joined Mr Apple at its inception in 2001 and prior to that was General Manager of Mr Apple's predecessor Grocorp Pacific Limited, where he worked for 16 years. He has extensive experience in the production aspects of the apple industry,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

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### **Kent Ritchie** CEO Scales Logistics

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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.



## 6. What Are My Risks?

**Your Shares will be fully paid and you will not have liability to make any further payments for them. However, you may not be able to get back any or all of your investment and you may not receive the returns you expect. This could be because you are unable to sell your Shares for the price you paid for them (or at all) or because the dividends paid on your Shares are less than you expect.**

The principal risks that may have an impact on our business or financial results, and which could reduce or eliminate the value of your Shares or the returns on them are set out below.

**A full description of the risks that may have an impact on your investment is set out in Section 6: What are my Risks? of the Prospectus.**

### **Pest and Disease Incursion Risk**

As an agribusiness group, we are exposed to the risk of animal disease or plant pest incursion in New Zealand.

An event such as an uncontrolled incursion of the Queensland fruit fly is likely to have a negative impact on the New Zealand economy, the horticultural industry and on us. Our horticultural division, for example, could be adversely affected by potential fruit production losses and the loss of access to many key markets.

An event such as an uncontrolled outbreak of foot and mouth disease in our livestock farming industries is likely to have a devastating impact on the New Zealand economy, the broader agricultural community and on us. Our Storage & Logistics division, for example, could be adversely affected as meat, dairy and tallow volumes represent a large proportion of our storage income.

New Zealand's geographic isolation, and the strict border protection programme administered by the New Zealand Government, mitigate these risks to some extent. To date, New Zealand has a very good record of managing these risks. However, the recent trapping of two Queensland fruit flies, in separate events this year in the North Auckland region, demonstrates that these risks are real.

### **Product Quality and Integrity Risk**

Our businesses must maintain a high degree of product specification and quality. Failure to meet product specification and quality requirements is a risk we face in each of our divisions as follows:

- **Horticulture:** Mr Apple relies on the quality and integrity of its apples to access key markets, sell product and sustain its brand reputation. If Mr Apple cannot prevent product quality issues (for example, through its systems to monitor and control spray residue levels and prevent internal apple browning), we may lose access to key markets, product sales volumes may decrease or we may suffer reputational damage to the Mr Apple brand.
- **Food Ingredients:** products from our Food Ingredients division need to be fit for sale and consumption. They may be rendered unfit for such purpose should contamination occur, whether accidental or deliberate, one-off or sustained. Isolated incidents of contamination may lead to product recalls or facility cleanings, which can affect our sales and costs respectively. Continual issues with product quality may negatively affect our brand, sales volumes may decrease and access to some of our key markets may be prohibited.
- **Storage & Logistics:** our storage businesses must store client products at strictly specified temperatures and in compliance with other specifications. If we fall short of such specifications, client product may be damaged. Negligent losses could negatively affect our customer relationship and brand. If serious damage to client product occurred, or our facilities were unable to meet required specifications on an on-going basis, we may lose key customers, resulting in a significant adverse impact on the profitability of this division.

In each business we have important internal controls and processes which test, monitor and report on product quality and performance which aims to reduce the likelihood of quality issues going undetected.

### **Global Apple Supply and Pricing Risk**

New Zealand apple exporters, including Mr Apple, achieve a premium for their redder and sweeter apple varieties targeted at the Asian and Middle Eastern markets. If consumer tastes and preferences were to change in these markets this may reduce the premium received for these apples, which would have an impact on the profitability of our Horticulture division.

Global apple prices for each year also depend on the total global apple harvest. While the global apple market is viewed as two separate markets, being the Northern and Southern Hemispheres, the size and quality of each hemisphere's harvest can have an impact on the demand and pricing for the current harvest. Additionally, changes in the availability of alternative summer fruits can also have an impact on demand for apples. In 2013, a Northern Hemisphere apple supply shortage improved prices for Mr Apple. If future Northern Hemisphere or total Southern Hemisphere crops are larger than normal, due to favourable growing conditions or other factors, this may lower the returns achieved by Mr Apple.

### **Market Access Risk**

We rely on continued market access to many different countries to sell our products. Accordingly, loss of access (or restricted access) to one or more of the key markets to which we export is a risk we face. Continued access requires us to meet key quality and phytosanitary requirements, as well as political and national biosecurity factors outside of our control. A loss of access to key markets is a significant risk for Meateor, Profruit and Mr Apple in particular.

### Climatic Risk

We are exposed to the risk of climatic events. In particular, Mr Apple relies on favourable climatic conditions for the successful growing of apples. Hail strike, frosts and other extreme weather events bringing excessive rain and wind can damage the apple crop, particularly if they occur during harvest.

While climatic events have the greatest impact on Mr Apple, a large reduction in the apple crop will also have an adverse impact on Scales Logistics through reduced volumes for export. In addition, our storage businesses can be negatively affected by lower volumes associated with drought conditions or excessive periods of wet or cold weather, both of which can reduce volumes of agricultural products stored in our facilities. A wide geographic spread of facilities and a diverse client base, with different product types, helps to mitigate the risk of losses from these events.

### Water Access and Use Risk

Mr Apple requires secure, sustained and adequate access to water to grow apples, mitigate frost and drought damage and achieve budgeted apple production. Water is a resource for which there are competing access and use rights and Mr Apple may not be able to access the supply of water that it requires to grow its product and prevent damage. Mr Apple has multiple water take resource consents for both irrigation and spray programmes which currently provide adequate water supply.

### Currency Rate Risk

Increases in NZD, relative to the currencies we trade in, can negatively affect revenue. We are a large exporter, and each of Mr Apple, Meateor, Profruit and Scales Logistics have net USD revenue. Although all of our USD freight costs are netted against export receipts, there remain large exposures of foreign currency to manage. We have a Group-wide Treasury Policy which aims to manage and mitigate our currency exposure. Forecast exposures are hedged by entering into foreign exchange instruments from Rabobank and Westpac. The currencies we trade in are varied, being GBP, AUD, EUR, USD and CAD. Changes in the value of these currencies relative to the NZD affects our earnings over time.

### Key Supplier and Customer Risk

We have a number of long-standing key suppliers and customers across each business division. Many relationships are secured by long-term contracts while others are on an informal basis with no written contract in place. We also have a number of orchard leases in place for our Mr Apple business, many of which are long-term leases with rights of renewal. We remain subject to the risk that such arrangements, contracts or leases might be terminated or contracts or leases not renewed upon expiry. Replacement arrangements, contracts or leases with new customers, suppliers or landlords, or renegotiated arrangements, contracts or leases with existing customers, suppliers or landlords, may be on less favourable terms. Relationships which are on an informal basis may not be honoured or may cease without notice.

### RSE Scheme Risk

The efficient and timely management of Mr Apple's thinning and harvest operations requires access to seasonal labour through the RSE Scheme. The RSE Scheme is a New Zealand Government approved scheme to regulate the supply of temporary labour from overseas countries (mainly the Pacific Islands). Mr Apple is one of the largest employers participating in the RSE Scheme, bringing in over 800 workers from across the Pacific Islands at harvest time. Without the scheme, the quality and prices achieved for our apples in international markets would be adversely affected. Mr Apple would also likely incur higher labour costs. There is a risk that future Governments may revise the scheme in a way which is unfavourable to us or may revoke the scheme entirely.



## 7. Overview of Financial Information

This section provides an overview of financial information. Audited Group financial statements for FY2013 along with summary financial statements for FY2009 to FY2013 are set out in the Prospectus. The historical financial information in this section has been extracted from Scales’ audited consolidated financial statements and unqualified audit opinions were received for each of those financial statements.

Scales has prepared prospective financial information for FY2014F and FY2015F in

accordance with Financial Reporting Standard No. 42 for inclusion in the Prospectus and the Appendix – Prospective Financial Information. The PFI provided in this section has been extracted from this information. The PFI is forward looking and based on certain assumptions, and therefore involves risks and uncertainties. Actual results could differ from those expressed or implied by such forward looking statements, with factors that could cause such differences including, but not limited to, those discussed in Section 6: *What are my Risks?* in this Investment Statement and the Prospectus. You should read the basis of

preparation, assumptions and sensitivities relating to the PFI (as detailed in the Appendix – Prospective Financial Information) so that you fully understand the PFI.

Certain information included in this section (including EBITDA) is non-GAAP financial information. You can find an explanation of why Scales uses this measure of financial performance later in this section. A reconciliation of Net Profit to Pro forma EBITDA is also included later in this section.

### 7.1 How Scales Makes Money and Overview of Financial Performance

#### 7.1.1 A Summary of How Scales Makes Money

Scales is a diversified agribusiness group that operates in, and provides services to, New Zealand’s primary export sector.

At a high level, Scales makes money through each division as follows:

- **Horticulture:** by growing, packing and marketing apples;
- **Storage & Logistics:** by selling cold storage, bulk liquid storage and freight services; and
- **Food Ingredients:** by processing and marketing production by-products.

Further information about the drivers of divisional performance is set out later in this section.

#### 7.1.2 Pro Forma Financial Performance

\$000	FY2012	FY2013	FY2014F	FY2015F
Horticulture Revenue	134,227	174,171	154,967	158,881
Storage & Logistics Revenue	77,243	91,662	90,227	93,374
Food Ingredients Revenue	33,601	33,113	35,489	34,794
Other Revenue	2,836	3,081	3,125	3,125
Intercompany Eliminations	(26,219)	(29,811)	(29,881)	(29,781)
<b>Total Revenue</b>	<b>221,688</b>	<b>272,216</b>	<b>253,927</b>	<b>260,393</b>
Horticulture Cost of Sales	(104,577)	(127,391)	(111,501)	(113,666)
Storage & Logistics Cost of Sales	(49,479)	(62,783)	(61,664)	(62,890)
Food Ingredients Cost of Sales	(27,257)	(27,178)	(30,122)	(29,558)
Other Cost of Sales	(317)	(23)	–	–
Intercompany Eliminations	23,448	26,731	26,616	26,517
<b>Total Cost of Sales</b>	<b>(158,182)</b>	<b>(190,644)</b>	<b>(176,671)</b>	<b>(179,597)</b>
<b>Gross Profit</b>	<b>63,506</b>	<b>81,572</b>	<b>77,256</b>	<b>80,796</b>
Gross Profit %	28.6%	30.0%	30.4%	31.0%
Administrative, Operating Expenses, and Other Income and Expenses	(37,563)	(40,383)	(39,483)	(40,960)
Share of profits of associate company and joint venture accounted for using the equity method	1,467	1,567	1,038	1,412
<b>Pro forma EBITDA</b>	<b>27,410</b>	<b>42,756</b>	<b>38,811</b>	<b>41,248</b>
Depreciation & Amortisation	(8,035)	(8,839)	(9,323)	(9,630)
<b>Pro forma EBIT</b>	<b>19,375</b>	<b>33,917</b>	<b>29,488</b>	<b>31,618</b>
Interest	(8,195)	(7,214)	(4,156)	(3,287)
<b>Pro forma Profit Before Income Tax</b>	<b>11,180</b>	<b>26,703</b>	<b>25,332</b>	<b>28,331</b>
Income Tax Expense	(4,342)	(7,144)	(6,802)	(7,537)
<b>Pro forma Net Profit</b>	<b>6,838</b>	<b>19,559</b>	<b>18,530</b>	<b>20,794</b>

There are no Pro forma adjustments to FY2015F Financial Performance. Accordingly, Net Profit is being shown for that year.

You can find more information about our financial performance, including our Statements of Financial Position and Cash Flows, in the Prospectus.

## 7.2 Explanation of Non-GAAP Financial Information

Scales' historical financial statements have been prepared in accordance with NZ GAAP. They comply with NZIFRS, as well as IFRS. Information included in this section is non-GAAP financial information. An explanation of why Scales has presented Pro forma financial information is set out below. In order to assist readers of our financial statements to better understand our financial performance, we use two non-GAAP financial measures, being EBITDA and Average Prospective Net Debt. A reconciliation of Pro forma EBITDA to Scales' audited Net Profit is also included later in this section.

### 7.2.1 Pro Forma Financial Information

The following unaudited non-GAAP financial information presented in this section represents historical and prospective financial information that has been adjusted for specific items to assist potential investors with comparing our profitability on a consistent basis.

Presented below are selected historical and prospective non-GAAP financial information and a description of how this non-GAAP financial information is measured for FY2012 to FY2015F. This selected information is provided in addition to disclosures required under the Securities Regulations.

Historically, Scales had four operating divisions, being Food Ingredients, Horticulture, Storage & Logistics and Investments. Investments included investment properties and a shareholding in NZX listed Turners & Growers Limited.

During February 2014, Scales' shareholders approved a proposal for the demerger of the Investments operating division from the Group. This demerger was effective on 30 April 2014, with Scales' shareholders at that time being issued with shares in George H Investments Limited, the holding company for the Investments group.

Cashreal Properties Limited, which owned Scales House, the Christchurch head office for the Group, was liquidated in 2014 after the earthquake insurance settlement for the building and the sales proceeds for the land were received.

In order to assist readers of Scales' financial statements to better understand the financial performance and financial position of the continuing operations of Scales, the following adjustments have been made to the historical financial information and to the PFI presented elsewhere in this document:

1. interest income and dividends received from other companies, previously included in revenue, are now included in other income (this has no impact on the Pro forma Net Profit);

2. net foreign exchange gains and proceeds of hail insurance, previously included in other income are now included in revenue (this has no impact on the Pro forma Net Profit);
3. the income and expenses relating to the companies in the Investment division have been excluded from the Pro forma consolidated statements of financial performance for FY2012 and FY2013;
4. the income and expenses relating to Cashreal Properties Limited have been excluded from the Pro forma consolidated statements of financial performance for FY2012 and FY2013;
5. the income and expenses relating to the companies in the Investment division for the period from 1 January 2014 to demerger on 30 April 2014 have been excluded from the Pro forma consolidated statement of financial performance for FY2014F; and
6. the Offer Costs have been excluded from the Pro forma consolidated statement of financial performance for FY2014F.

There have been no changes to the FY2014F prospective statement of financial position or the prospective financial information for FY2015F.

We set out below a reconciliation of Scales' Pro forma Net Profit to Scales' audited Net Profit.

### Reconciliation of Pro Forma Net Profit to Net Profit

\$000	Note	FY2012	FY2013	FY2014F	FY2015F
<b>Pro forma Net Profit</b>		<b>6,838</b>	<b>19,559</b>	<b>18,530</b>	<b>20,794</b>
RECONCILIATION TO GAAP INFORMATION:					
Offer costs	6	–	–	(2,875)	–
Profit (loss) for the year of demerged George H Investments Ltd Group:	3, 5				
– Revenue		8,691	2,177	764	–
– Other income		1,256	931	–	–
– Other (losses)		(1,142)	(658)	–	–
– Impairment of non-current assets		–	(2,044)	–	–
– Cost of sales and expenses		(6,868)	(423)	(389)	–
– Taxation		1,502	(478)	(105)	–
		3,439	(495)	270	–
Profit for the year of Cashreal Properties Limited (liquidated during 2014):	4				
– Revenue		84	20	–	–
– Insurance gain on building (2012) and gain on sale of land (2013)		3,373	1,360	–	–
– Expenses		(16)	–	–	–
– Taxation		(94)	(6)	–	–
		3,347	1,374	–	–
<b>Net Profit as Reported in Historical Financial Statements and PFI</b>		<b>13,624</b>	<b>20,438</b>	<b>15,925</b>	<b>20,794</b>

## 7.2.2 EBITDA

Because EBITDA is not defined by NZ GAAP, IFRS, or any other body of accounting standards, our calculation of EBITDA may differ from similarly titled measures presented by other companies. This measure is intended to supplement the NZ GAAP measures presented in our financial information and not to be a substitute for those measures.

EBITDA is earnings before interest, tax, depreciation and amortisation.

EBITDA is a non-GAAP profit measure that has been reported in historical financial statements (in the segment analysis) and will be reported in the financial information going forward, and therefore is shown in the financial information presented in the prospective financial

information. Scales' management uses EBITDA to evaluate our operating performance without the impact of a range of non-cash items or the effects of our capital structure and tax position.

EBITDA should not be considered in isolation or as a substitute for NZ GAAP measures, such as Net Profit and cash flow measures.

### Reconciliation of Net Profit to Pro Forma EBITDA

\$000	FY2012	FY2013	FY2014F	FY2015F
<b>Net Profit as Reported in Historical Financial Statements and PFI</b>	<b>13,624</b>	<b>20,438</b>	<b>15,925</b>	<b>20,794</b>
<i>Deduct:</i>				
Profit (loss) for the year of demerged George H Investments Ltd Group	(3,439)	495	(270)	–
Profit for the year of Cashreal Properties Limited (liquidated during 2013)	(3,347)	(1,374)	–	–
<b>Net Profit from Continuing Operations</b>	<b>6,838</b>	<b>19,559</b>	<b>15,655</b>	<b>20,794</b>
<i>Add Back:</i>				
Offer Costs	–	–	2,875	–
Depreciation & amortisation	8,035	8,839	9,323	9,630
Interest	8,195	7,214	4,156	3,287
Income tax expense	4,342	7,144	6,802	7,537
<b>Pro forma EBITDA</b>	<b>27,410</b>	<b>42,756</b>	<b>38,811</b>	<b>41,248</b>

## 7.2.3 Average Prospective Net Debt

Average Prospective Net Debt is used to calculate indicative enterprise value. Average Prospective Net Debt is the value of current and non-current borrowings less cash and cash equivalents, using an average measure of working capital in order to smooth fluctuations in working capital that occur throughout the year.

Average Prospective Net Debt is projected to be \$44.1 million during 2014, being the aggregate of:

– an estimated \$30.0 million of term debt borrowings; and

– \$14.1 million, which is the average of the net working capital facility balance as at 30 June 2014 and 31 December 2014. This is broadly consistent with our forecast average monthly closing net working capital facility balance for FY2014F.

The table below sets out the calculation of Average Prospective Net Debt in FY2014F.

\$000	FY2014F
Net working capital facility (30 June 2014)	23,576
Net working capital facility (31 December 2014)	4,716
<b>Average net working capital facility</b>	<b>14,146</b>
Term debt borrowings (plus any current portion of term debt) (31 December 2014)	30,000
<b>Average Prospective Net Debt</b>	<b>44,146</b>

## 7.3 Drivers of Divisional Performance

### 7.3.1 Horticulture

In order to maximise profitability, our Horticulture division seeks to:

- maximise apple volumes whilst ensuring strict compliance with customer's agronomy requirements (for example the use of pesticides and chemicals);
- minimise the costs associated with harvesting its apples and running post-harvest operations without compromising quality or service;
- charge a competitive rate for packing, cool storage and marketing services provided to external apple growers; and
- sell apples (both our own and external growers') for the maximum value possible in international markets.

#### Apple Volumes

Volumes are driven by the total planted orchard area and yields achieved on those orchards.

Since 2013 Mr Apple's total planted orchard area has grown substantially due to:

- Mr Apple taking on two new long-term leases in late FY2012, increasing its total planted orchard by 18%; and
- Mr Apple undertaking a large orchard replanting and re-grafting programme, covering almost 270 ha in the last 6 years. While this had the effect of reducing producing orchard in the initial years, the number of mature hectares is now expected to increase each year until 2021 (assuming no further redevelopment). Re-grafted trees generally start to produce fruit in their third summer (about 30 months after re-grafting) and generally reach maturity in their sixth or seventh summer (about 66 or 78 months after re-grafting).

Volumes are also heavily influenced by the saleable production volume achieved from each planted ha (*yield*) as only blemish-free, quality fruit can be sold internationally. Mr Apple consistently achieves superior export yields per ha. The associated higher volumes make it easier for Mr Apple to cover its fixed overheads and generate a more meaningful return on its orchard investment. Over time, through superior orchard practices, Mr Apple has been steadily increasing yield for key varieties.

#### Apple Price

The average price received for our apples is a function of three components:

- the in-market prices achieved for each variety;
- the varietal mix; and
- foreign exchange rates.

#### In-market prices

Asian and Middle Eastern markets have demonstrated strong growth in per capita apple consumption in recent years. We consider this growth in consumption, coupled with limited domestic supply, has resulted in a willingness for consumers to pay a significant premium for varieties targeted to specific consumer preferences in these markets.

In-market prices achieved for key varieties in Mr Apple's target Northern Hemisphere markets have also improved in recent years. We consider this has largely been driven by the shortening of supply to these markets as Southern Hemisphere exporters have diverted volumes to Asian and Middle Eastern markets.

New Zealand apple growers have consistently achieved better prices for their fruit than other Southern Hemisphere producers. We consider that this price premium is due to New Zealand's consistently high quality fruit, its clean and green image, and excellent agronomy practices. These factors give international buyers confidence about the manner in which apples are grown, picked and stored.

#### Varietal mix

Mr Apple has increased production of new premium varieties that are redder in colour and sweeter in taste, particularly to suit the preferences of Asian and Middle Eastern consumers. These varieties include NZ Queen, NZ Rose, Pink Lady, and red sports (an apple 'sport' is a sub-variety within a broader varietal group) of Fuji and Royal Gala, and achieve a premium of up to 50% on conventional varieties.

See *Section 5.1.2: Mr Apple* for a break down of Mr Apple's planted orchard by variety over time.

#### Foreign exchange rates

As an exporter, Mr Apple will generally benefit from lower exchange rates. Whilst relatively high exchange rates over recent years have generally been detrimental for New Zealand exporters, this has been more than offset by improvements in the in-market prices received for New Zealand apples.

#### Commissions and Other External Grower Services

In 2013, external growers accounted for 32% of the total volume exported by Mr Apple. Mr Apple charges its external growers a commission of approximately 6% for selling their apples. This commission compensates Mr Apple for sale and marketing costs and represents a 'royalty' payment to access the Mr Apple brand and Mr Apple's international customers.

In addition to commissions (which are also charged by Fern Ridge Produce for the provision of the same service and benefits), Mr Apple packs and provides cool storage services for external Hawke's Bay

growers. External growers are charged competitive, market-based rates for the provision of these services.

### 7.3.2 Storage & Logistics

In order to maximise profitability, our Storage & Logistics division seeks to:

- sell cold storage and bulk liquid storage space at competitive rates;
- optimise year round utilisation of installed capacity; and
- provide a high level of customer service at the lowest cost.

Each company within the Storage & Logistics division charges for space in a slightly different manner:

- **Polarcold and Whakatu Coldstores:** generally charge customers for goods stored for each calendar month, based on space and levels of handling.

Prices for cold storage and any associated services are reviewed with customers on a regular basis or as contractually permitted. Over time, prices tend to increase to reflect increases in costs of providing service (such as electricity and labour).

- **Liqueo:** generally charges customers a fixed lease to secure space for their product, with casual rates applying to storage in excess of leased space.

Customers agree to fixed term contracts that are reviewed at the end of their term. Such contracts specify the lease cost for fixed space availability as well as charges for any excess (casual) storage, handling charges, and charges for any value added services.

- **Scales Logistics:** charges a margin above the cost of sea or air freight.

Our Storage & Logistics division continually seeks to optimise year round utilisation of its storage infrastructure by securing customers with peak storage requirements that vary across an extended production season (for example dairy products with peak supply from late spring complement horticultural products with peak supply in autumn), as well as customers with counter-seasonal or relatively static storage requirements throughout the year (for example FMCG customers).

### 7.3.3 Food Ingredients

In order to maximise profitability, our Food Ingredients division seeks to:

- source sufficient volumes of production by-products at competitive rates;
- minimise the costs associated with converting those products into tradeable ingredients; and
- sell those ingredients in international markets for maximum value.

## 7.4 Explanation of Trends in Historical and Prospective Financial Information

### 7.4.1 Trends in Historical Pro Forma Financial Performance

In the financial years FY2012 and FY2013, at the EBITDA level:

- Horticulture experienced a significant uplift in profitability in FY2013, arising from orchard expansion, a favourable growing season, investments in technology, initial volumes from redeveloped orchards producing varieties that command significant price premiums and strong prices generally;
- Storage & Logistics delivered consistent profit; and
- Food Ingredients produced an above average return in FY2012 and returned to historical levels in FY2013.

#### Horticulture

This section summarises key changes in performance as explained by relevant movements in key drivers described above.

##### FY2012 Drivers of Performance

- **Weighted average apple prices (NZD equivalent):** pricing in FY2012 was generally consistent with prior years.
- **Volumes (orchards and yields):** total Mr Apple own-grown export volumes were slightly over 2.1 million TCEs in FY2012, equating to a yield of 2,516 export TCEs per ha and representing a 7.2% increase on FY2011 volumes driven by an approximately 50 ha increase in total planted orchard immediately prior to the FY2012 harvest, significant levels of redevelopment in prior years reduced the productivity of the total planted orchard in FY2011.

##### FY2013 Drivers of Performance

- **Weighted average apple prices (NZD equivalent):** an approximate 18% improvement in NZD FOB prices per TCE reflecting:
  - stronger prices from the United Kingdom and Europe, driven by a number of factors including Northern Hemisphere supply shortages;
  - an increase in the proportion of sales of premium varieties to Asian and Middle Eastern markets; and
  - favourable growing conditions producing particularly high colour and high brix (sweeter) fruits.

– **Volumes (orchards and yields):** two factors drove a substantial increase in export volumes:

- Mr Apple took on two new leases with more than 155 ha of planted orchard, increasing its total planted orchard by 18%; and
- a significant improvement in export yields (improvement to 2,755 export TCEs per planted ha). This was driven by favourable growing conditions and improvements in orchard management (including superior use of irrigation technologies, reflective foil, tree spacing and pruning programmes).

– **Other changes:** an increase in orchard related direct costs largely reflects ‘catch-up’ orchard maintenance in the new leases taken on to bring those orchards into line with Mr Apple best practice. Some additional cost was incurred relating to a localised hail strike which was largely mitigated through attentive thinning.

Labour efficiencies achieved in the Whakatu packhouse following the installation of the new defect sorter are likely to be further improved upon in subsequent years as costs associated with integration and determining optimal use of the new equipment are not repeated.

#### Storage & Logistics

Profitability across FY2012 and FY2013 was consistent, with each of the three businesses within the Storage & Logistics division delivering steady results across the period.

##### FY2012 Drivers of Performance – Polarcold and Whakatu Coldstores

- **Prices charged for storage:** pricing for storage in FY2012 was generally consistent with prior years.
- **Inwards goods received:** the volume of goods received in FY2012 was approximately 13% higher than in the twelve month period to December 2011. This was largely due to a full year of results from the Kerepehi coldstore, higher volumes of dairy storage at the Port of Napier and a return to average levels of horticultural storage in Christchurch.

##### FY2013 Drivers of Performance – Polarcold and Whakatu Coldstores

- **Prices charged for storage:** pricing for storage in FY2013 was generally consistent with prior years. Some increases in pricing resulted from passing through increased costs (such as electricity and labour) to customers.
- **Inwards goods received:** there was a slight reduction in volumes in FY2013, especially at Whakatu Coldstores. This is considered to be in part due to the 2012–2013 prolonged dry period.

##### FY2012 Drivers of Performance – Liqueo

- **Storage revenues:** storage revenues in FY2012 were generally consistent with prior years.
- **Cost control:** substantial savings in labour and heating were achieved in the Timaru facility in FY2012 following focus of key management on these costs. This resulted in a significant improvement in EBITDA.

##### FY2013 Drivers of Performance – Liqueo

- **Storage revenues:** storage revenues in FY2013 were generally consistent with FY2012.
- **Cost control:** reduced volumes in the South Island were offset by a strong increase in volumes in the North Island. However, total volumes exceeded the installed capacity in the North Island and Liqueo leased space from other bulk liquid storage companies to accommodate this overflow, increasing costs and lowering margins. Newly installed capacity in the North Island should reduce the need for outside storage in the future.

##### FY2012 Drivers of Performance – Scales Logistics

- **EBITDA:** Scales Logistics’ profitability in FY2012 was similar to the financial year ended 30 June 2011, with volumes, margins and overheads generally consistent.

##### FY2013 Drivers of Performance – Scales Logistics

- **Volumes:** traditional sea freight volumes increased by 16% due to increased apple volumes for both Mr Apple and other apple customers. In addition, FY2013 was the first full year of operations of Balance Cargo, our specialist air freighting business.
- **EBITDA:** additional volume drove increased gross margins, offset by increases in overheads principally associated with Balance Cargo. Total EBITDA was consistent with FY2012.

#### Food Ingredients

FY2013 EBITDA for Meateor was lower than FY2012 EBITDA by approximately 9%. Profruit FY2013 EBITDA was affected by reductions in global apple juice concentrate prices.

### FY2012 and FY2013 Drivers of Performance

- **Margins:** for Meateor gross margins declined between FY2012 and FY2013. For Profruit, profits in FY2013 were lower than FY2012 following an approximate 20% reduction in global apple juice concentrate prices.
- **Volumes:** for Meateor, total volumes sold reduced slightly from 16.2 million kgs in FY2012 to 15.3 million kgs in FY2013. For Profruit, volumes received have oscillated around a four year average of approximately 42 million kgs, with peak volumes recorded in FY2013.

### 7.4.2 Trends in Prospective Pro Forma Financial Performance

#### Overview of EBITDA for FY2014F

FY2014F EBITDA is forecast to decrease from \$42.8 million to \$38.8 million, reflecting:

- Lower apple volumes in the Horticultural division. FY2013 growing conditions were very favourable, whilst FY2014F apple volumes were affected by a hail event in December 2013.
- Lower apple prices. Following a strong uplift in global apple prices during FY2013, apple prices have been assumed to reduce slightly in FY2014F.
- Consistent performance in the Storage & Logistics division, with overall EBITDA up by 1%.
- Lower contribution from the Food Ingredients division reflecting lower margins on pet food sales (following an increase in the cost of raw materials that has not been able to be fully passed on to customers) and reduced apple juice concentrate prices and volumes impacting on Profruit's profitability.
- Minor increases in head office costs reflecting a part year of listing costs.

#### Overview of EBITDA for FY2015F

FY2015F EBITDA is forecast to increase from \$38.8 million to \$41.2 million, reflecting:

- Approximately \$1.5 million in additional EBITDA from the Horticultural division, reflecting:
  - increased apple volumes in the Horticultural division. Apple volumes are expected to increase for two reasons:
    - significant volumes of replanted orchard are coming in to mature levels of production; and
    - orchard yields are assumed to be representative of an 'average' year (as measured over the last 5 years). On balance this provides for a small amount of climatic damage, but less than that experienced in FY2014F;
- Approximately \$0.8 million in additional EBITDA from the Storage & Logistics division, reflecting:
  - a significant profit uplift from the bulk liquid storage business, Liqueo, following additional storage requirements at Timaru for an existing customer; and
  - increased profit from the coldstore businesses due to anticipated electricity efficiencies following an investment to upgrade the engine room in the largest coldstore at Timaru; offsetting
  - start-up losses from the Auckland coldstore expected to open in late FY2015F.
- A minor increase in EBITDA from the Food Ingredients division, reflecting:
  - increases in Profruit profits as apple juice concentrate prices increase offsetting a minor reduction in profitability from Meateor as Meateor returns to sustainable sale volumes.
- A further increase in Head Office costs reflecting a full year of incremental costs of listing.

## 8. Terms of the Offer

The Offer is an offer of ordinary shares in Scales, comprising both existing Shares held by the Selling Shareholders and new Shares to be issued by Scales, which will be acquired by the Offeror and sold under this Offer at the Final Price to members of the public in New Zealand and to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions.

The Offer comprises the Broker Firm Offer, the Pohutukawa Offer and the Institutional Offer. There is no general public offer under which you may subscribe for Shares. Therefore if you are not a Pohutukawa Investor and you wish to subscribe for Shares you must do so through an NZX Firm with an allocation of Shares.

### Size of the Offer

The Offer comprises an offer by the Offeror of:

- \$30 million<sup>16</sup> new Shares (being 16.2 million to 18.8 million Shares based on the Indicative Price Range); and
- 59.2 million to 82.0 million existing Shares.<sup>17</sup>

Based on there being \$30 million of new Shares issued and the Selling Shareholders selling down the minimum number of Shares at the low end of the Indicative Price Range and the maximum number of Shares at the high end of the Indicative Price Range, the expected gross proceeds from the Offer will be \$124.7 million to \$181.8 million.

The Selling Shareholders will each enter into binding commitments to sell their chosen number of Shares before commencement of the bookbuild.<sup>18</sup> Accordingly, the number of existing Shares available under the Offer is expected to be advised to bookbuild participants prior to the opening of the bookbuild.

If the Offer does not raise \$30 million<sup>16</sup>, or if there is insufficient demand for the Shares in the bookbuild at a price acceptable to the Company and Direct Capital IV GP Limited (as Promoter), the Offer will not proceed.

### How much do I pay?

You will pay the Final Price per Share, determined following the bookbuild process described below. The Final Price is expected to be announced on or about 4 July 2014 and will be available at [www.scalescorporation.co.nz](http://www.scalescorporation.co.nz) or by contacting your NZX Firm.

As the Final Price will be known when you make your Application for Shares, you will be asked to apply for a number of Shares multiplied by the Final Price which will give a total Application amount.

You will not pay any brokerage, commission or stamp duty for the Shares you apply for in the Offer.

### How is Pricing of the Shares Fixed?

The Final Price for the Shares will be determined on or about 4 July 2014 following the conclusion of a “bookbuild” process managed by the Joint Lead Managers. A bookbuild is the term used to refer to the process of collating demand for shares at various prices from institutional investors, including NZX Firms, who bid for shares. The information collated in the bookbuild is then used to assist with the determination of the pricing and allocation of shares. NZX Firms bid into the bookbuild in order to obtain a firm allocation which they can then offer to their New Zealand resident clients. The bookbuild is expected to take place on 3 and 4 July 2014 (unless the Issuers and the Joint Lead Managers agree to alter the dates of the bookbuild).

The Final Price will be determined by Scales and Direct Capital IV GP Limited (as Promoter) in consultation with the Joint Lead Managers and may be within, above or below the Indicative Price Range.

### Refunds

If the Offer, or any part of it, is withdrawn, the relevant Application amounts will be refunded without interest no later than five Business Days after the decision to withdraw the Offer (or any part of it) is announced.

All refunds will be paid in the manner in which you elect any future dividend payments to be paid.

### Selling Shareholders

The Offer will enable Direct Capital Investments Limited<sup>19</sup> to sell between 59% and 73% of its Shares,<sup>20</sup> certain Management Shareholders collectively holding 4,905,000 Shares issued to them under the Existing Senior Executive LTI Scheme<sup>21</sup> to sell in aggregate up to 30% of those Shares (with no one Management Shareholder selling more than 50% of the Existing Senior

Executive LTI Scheme Shares they hold) and other management and minority Shareholders to sell all or some of their Shares.<sup>22</sup> Shares retained by Direct Capital Investments Limited and the Existing Senior Executive LTI Scheme Shares retained by Management Shareholders will be subject to escrow arrangements which will restrict their sale or disposal until the first day after Scales’ preliminary announcement has been released to the market in respect of its financial results for the year ending 31 December 2015, without the approval of the Directors who are not “interested” in the decision (as that term is defined in the Companies Act), Scales and NZX, subject to limited exceptions set out in the Prospectus.

### Shareholdings

The ownership of Scales prior to the Offer and upon completion of the Offer (following allotment of the Shares) is illustrated in the table on page 43 based on the Indicative Price Range and the range of Shares that the Selling Shareholders may elect to sell down.

### Broker Firm Offer

The Broker Firm Offer is open to New Zealand resident clients of NZX Firms who have received an allocation. You should contact your broker to determine whether they may allocate Shares to you under the Broker Firm Offer. There is no public pool under which you may subscribe for Shares.

You can apply in the Broker Firm Offer by completing the Application Form accompanying this Investment Statement in accordance with the instructions set out in *Section 10: How do I apply?*

Please contact your broker if you require further instructions.

Your NZX Firm will determine the number of Shares you may apply for. However, the minimum Application amount is 1,000 Shares.

### Pohutukawa Offer

Pohutukawa currently has a 9.6% interest in Scales and will sell 66% of its Shares to the Offeror. Pohutukawa Investors will have an opportunity to subscribe for a number of Shares through the Offer equivalent to their existing indirect interest in the Shares sold by Pohutukawa, which they currently hold through their investment in Pohutukawa.

### What you need to do to sell your Shares:

If you wish to sell your Shares on the NZX Main Board after confirming your allocation you must contact an NZX Firm and have a CSN and FIN. Opening a new broker account can take a number of days depending on the NZX Firm’s new client procedures. If you do not have a CSN, you will:

- be assigned one when you set up an account with an NZX Firm; or
- receive one from the Registrar when you receive your holding statement for your Shares (which is expected to be sent on 24 July 2014).

If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Registrar on 23 July 2014. If you have a broker and have not received a FIN by the date you want to trade your Shares, your broker can obtain one, but may pass the cost for doing so on to you.

Shareholdings	Prior to the Offer		Following completion of the Offer	
	Shares	%	Shares	%
Direct Capital Investments Limited	100,709,028	84.2%	27,161,644 to 41,502,602	20.0% to 30.0%
Management Shareholders <sup>21</sup>	4,905,000	4.1%	3,433,500 to 4,905,000	2.5% to 3.5%
Other management and minority Shareholders	13,977,978	11.7%	6,968,376 to 13,977,978	5.1% to 10.1%
Senior Executive LTI Scheme Participants <sup>23</sup>	–	–	1,437,000	1.0% to 1.1%
New Shareholders pursuant to the Offer	–	–	76,519,426 to 96,807,702	55.3% to 71.3%

The Shares held by Direct Capital Investments Limited are managed by Direct Capital IV Management Limited and Direct Capital IV GP Limited. Direct Capital Investments Limited is holding those Shares as custodian for the beneficial owners of those Shares, including the Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) (as to 32.21% of the Shares held by Direct Capital Investments Limited) pursuant to co-investment arrangements. If those co-investment arrangements are terminated, those parties will take direct control of their Shares.

If you are a Pohutukawa Investor, Application instructions will be sent to the email address you have supplied to the Registrar in respect of this opportunity.

Pohutukawa Investors who wish to subscribe for further Shares may participate in the Broker Firm Offer in the same manner as other Broker Firm Applicants and should contact their broker to indicate their interest in the Broker Firm Offer.

Once Pohutukawa has determined the number of Shares it will sell you will be advised by email of the number of Shares for which you can subscribe in the Pohutukawa Offer, which will be equivalent to your existing indirect interest in the Shares to be sold by Pohutukawa. You will only be able to accept in full the Pohutukawa Offer made to you.

Pohutukawa has agreed to pay the subscription monies for Shares issued to Pohutukawa Investors under the Pohutukawa Offer on the basis that such amount will constitute a debt payable by the Pohutukawa Investor to Pohutukawa, and that Pohutukawa is entitled to set off against that debt any amounts that become payable by Pohutukawa to that Pohutukawa Investor. This is expected to be satisfied by the distribution to be made by Pohutukawa from the proceeds of sale of its Shares to the Offeror.

To the extent that any Pohutukawa Investor is entitled to participate in the Pohutukawa Offer because it holds Shares as a custodian, that Pohutukawa Investor may only apply for Shares in the Pohutukawa Offer on behalf of the beneficial owner and only to the extent of that beneficial owner's indirect interest in the Shares to be sold by Pohutukawa.

### Institutional Offer

The Institutional Offer is made to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions who will participate through the bookbuild.

### Allocations, Allotments and Listing

#### Allocations

The allocation of Shares between the Broker Firm Offer and the Institutional Offer and as between Institutional Investors and NZX Firms will be determined by the Issuers in consultation with the Joint Lead Managers. Pohutukawa Investors who subscribe for Shares in the Pohutukawa Offer will be allocated the full amount of Shares for which they are entitled to apply.

Allocations by NZX Firms to their New Zealand resident clients will be determined by those NZX Firms. It will be a matter for the NZX Firms to ensure that their New Zealand resident clients who have received an allocation from them receive their Shares. Broker Firm Offer Applicants should contact the NZX Firm from whom they received their allocation to find out if their Application was successful.

#### Allotments

Any New Zealand resident with a CSN will have their Shares allotted under their CSN, if the CSN was provided on the Application Form.

Applicants who do not have a CSN will be allocated a CSN at the time of Application. The CSN will be advised at the time the allotment of Shares is confirmed and the associated Authorisation Code (FIN) will be sent as a separate communication on 23 July 2014.

Shares allocated under the Offer are expected to be allotted on 24 July 2014.

Holding statements are expected to be sent to all successful Applicants on 24 July 2014. None of the Issuers, the Promoters, the Joint Lead Managers, the Registrar nor any of their respective directors, officers, employees or advisers accepts any liability should any person attempt to sell or otherwise deal with the Shares before a statement confirming allotment is received.

### Listing and Quotation on NZX

Application has been made to NZX for permission to list Scales and to quote the Shares on the NZX Main Board and all the requirements of NZX relating thereto that can be complied with on or before the date of this Investment Statement have been duly complied with. However, NZX accepts no responsibility for any statement in this Investment Statement. The NZX Main Board is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act.

Initial quotation of the Shares on the NZX Main Board is expected to occur under the symbol 'SCL' on 25 July 2014.

<sup>16</sup> Less the Shares (of up to \$3,180,000) to be issued to eligible Scales employees who choose to participate in the Employee Share Ownership Scheme which is described in Section 5.5: Board, Senior Management and Corporate Governance of the Prospectus.

<sup>17</sup> Indicative only. The actual number of existing Shares to be offered by the Offeror may be within, above or below this range and will only be known at the time of the bookbuild after binding sale commitments have been received by the Offeror in respect of the Shares being sold by the Selling Shareholders.

<sup>18</sup> Such commitments will be given by entering into an agreement with the Offeror or, in the case of the other management and minority Shareholders, by accepting the Company's offer to buy back their Shares which will in turn be sold to the Offeror by the Company. None of the Selling Shareholders guarantees the Shares or the return on any investment made pursuant to this Investment Statement.

<sup>19</sup> Direct Capital Investments Limited holds Shares as custodian for DCIV-PII Delta Partnership (a partnership between Direct Capital IV Limited Partnership and Pohutukawa Delta Limited), Direct Capital IV Investments Limited, Hendry Nominees Limited, Direct Capital IV Delta Limited Partnership, the Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) and Accident Compensation Corporation.

<sup>20</sup> Each of the entities for whom Direct Capital Investments Limited holds Shares as custodian will sell down between 59% and 73% of its Shares. Pohutukawa Delta Limited will sell 66% of its Shares.

<sup>21</sup> This disclosure refers to the Existing Senior Executive LTI Scheme Shares held by the Management Shareholders (which, to the extent not sold under the Offer, will be subject to the escrow arrangements described in this Investment Statement and the Prospectus). Management Shareholders may hold additional Shares but those Shares will not be sold under the Offer and will not be subject to those escrow arrangements.

<sup>22</sup> Shareholders holding up to 1,500 Shares can elect to sell 100% of their Shares and Shareholders holding over 1,500 Shares can elect to sell 50% of their Shares.

<sup>23</sup> Shares will be issued to participants in the new Senior Executive LTI Scheme, which is being established concurrently with the Offer, on or before the Allotment Date. You can find out more about the new Senior Executive LTI Scheme in Section 5.5 Board, Senior Management and Corporate Governance of the Prospectus.

## 9. About the Shares

**Each Share confers an equal right to share in dividends and other distributions authorised by the Board of Scales, and to cast a vote at meetings of Shareholders, in accordance with the Constitution. Once the Shares are trading, further information about Scales will be able to be obtained at [www.nzx.com](http://www.nzx.com).**

### What returns will I get?

Your returns on Shares may be:

- dividends paid and other distributions which may be made in respect of your Shares; and
- any gains you make if you sell or dispose of your Shares for a net price that is greater than the price you paid for them (although the market price of your Shares may also decline, making them worth less than you paid for them).

No amount of returns is promised in respect of the Shares. The key factors that will determine your returns (if any) are the market price for Shares and the Board's decisions in relation to dividends or other distributions. If you sell your Shares, you may be required to pay brokerage or other sale expenses. Tax will also affect your returns from the Shares. You should seek your own tax advice in relation to your Shares.

Scales is legally liable to pay you any dividends or other distributions declared on your Shares.

If you sell any of your Shares, the purchaser of those Shares will be legally liable to pay you the sale price.

You may cash in your investment by selling your Shares. Any sale of Shares must be made in accordance with the requirements of the Constitution, the NZX Listing Rules and any applicable laws.

### Dividend Policy

Dividends and other distributions with respect to the Shares are only made at the discretion of the Board. Scales initially intends to pay dividends annually. However, the payment of dividends is not guaranteed and Scales' dividend policy may change. The Board's decisions in relation to the level of reserves and retentions may affect any dividends or distributions you receive from the Shares.

Scales' dividend policy is to target a dividend payout ratio in respect of each financial year of between 65% and 75% of Net Profit, or Pro forma Net Profit in the case of FY2014F.

Payment of dividends will always be subject to:

- satisfaction of the solvency requirements of the Companies Act;
- any banking or other funding requirements by which Scales is bound from time to time; and
- the investment and operating requirements of Scales.

### Can my investment be altered?

Scales may only amend its Constitution (which sets out the rights attached to Shares) with approval by a special resolution of Shareholders. Scales cannot take any action that affects the rights of any interest group of Shareholders without approval by a special resolution of that affected interest group.

A special resolution must be approved by at least 75% of the votes of those Shareholders entitled to vote and who actually vote on that resolution. Under certain circumstances, if your rights are affected by an action approved by a special resolution, you may require Scales to purchase your Shares.

### Consequences of Insolvency

In the event of the insolvency of Scales, you will not be liable to pay any money to any person. All creditors (secured and unsecured) of Scales will rank ahead of your claim as a Shareholder, if the company is liquidated. After all such creditors have been paid, any remaining assets will be available for distribution among all Shareholders who rank equally. Any distribution made on liquidation of Scales may be less than the amount of your investment or you may not receive any amount.

### NZX Listing Rule 7.1.15

As at the date of this Investment Statement, the following Shareholders have relevant interests (as defined in the Securities Markets Act 1988) in 5% or more of the Shares: (a) Direct Capital Investments Limited is the registered holder of 100,709,028 Shares; (b) Direct Capital IV Management Limited and Direct Capital IV GP Limited are responsible for managing those Shares held by Direct Capital Investments Limited and accordingly have the power to exercise, or to control the exercise of, the rights to vote attached to such shares and the power to acquire or dispose of, or control the acquisition or disposition of, such Shares; and (c) Direct Capital Investments Limited is holding those Shares as custodian for the beneficial owners of those Shares, being DCIV-PII Delta Partnership (a partnership between Direct Capital IV Limited Partnership and Pohutukawa Delta Limited) (as to 43.91% of the Shares held by Direct Capital Investments Limited), Direct Capital IV Investments Limited (as to 2.91% of the Shares held by Direct Capital Investments Limited), Hendry Nominees Limited (as to 0.90% of the Shares held by Direct Capital Investments Limited), Direct Capital IV Delta Limited Partnership (as to 6.27% of the Shares held by Direct Capital Investments Limited), Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) (as to 32.21% of the Shares held by Direct Capital Investments Limited), through a co-investment arrangement and the Accident Compensation Corporation (as to 13.80% of the Shares held by Direct Capital Investments Limited) through a co-investment arrangement, which were acquired over a period of time since July 2011 through share issues and purchases for a net aggregate consideration of \$67,139,352, plus use of money interest. Note that pursuant to their co-investment arrangements, each of the Guardians of New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund (acting through their nominee NZSF Private Equity Investments (No 1) Limited) and the Accident Compensation Corporation may end those arrangements and take direct control of the subject Shares.

## 10. How do I Apply?

**If you wish to apply in the Broker Firm Offer, complete the blank Application Form at the back of this Investment Statement in accordance with the instructions on the Application Form. If you are a Pohutukawa Investor, application instructions will be sent to the email address you have supplied to the Registrar.**

**If you wish to apply in the Broker Firm Offer, your Application Form should be returned to your NZX Firm to enable forwarding to the Registrar by 5.00pm on 22 July 2014. Alternatively, Applications can be lodged with Scales, any NZX Firm, the Joint Lead Managers or any other channel approved by NZX so as to be received in time to enable forwarding to the Registrar by 5.00pm on 22 July 2014. Pohutukawa Investors must apply for Shares in the Pohutukawa Offer by 3.00pm on Wednesday 2 July 2014.**

### Application Payment

Applications in the Broker Firm Offer must be accompanied by payment in full for the dollar amount of Shares applied for. Your payment must be made in accordance with the directions of the NZX Firm from whom you received an allocation.

### Option 1: One-time Direct Debit

If you choose to make a one-time payment out of your bank account, the direct debit will be processed on the first Business Day after your Application Form is received by the Registrar or, if received on the day the Offer closes, the same Business Day.

One-time direct debits will only be processed from New Zealand registered banks. You must ensure that:

- the bank account details supplied are correct;
- there are sufficient funds in the specified bank account;
- you have the authority to operate the account solely/jointly; and
- the bank account you nominated is one which will allow the one-time direct debit to be made. For example, certain savings accounts may not allow money to be withdrawn in this manner. If you are uncertain you should contact your bank.

If the direct debit from your bank account is unsuccessful, your Application will be rejected. The terms and conditions for one-time direct debit can be obtained by calling (09) 488 8777 during the Offer period.

### Option 2: Cheque

If you choose to pay by cheque your cheque should be made payable to “Scales Share Offer”, be crossed “Not Transferable” and not be post dated.

Your cheque will be banked on the Business Day it is received. If your cheque is post dated or dishonoured, your Application may be rejected.

### Option 3: Other

If the NZX Firm from whom you received your allocation has given directions as to another method of payment, other than payment by cheque or direct debit, select this option. You should carefully follow those instructions or your Application may be rejected.

### Submitting Your Application

You will not be able to reverse or change your Application after it has been submitted. By submitting an Application you agree to purchase and subscribe for the number of Shares you specify in your Application Form on the terms and conditions set out in this Investment Statement, the Application Form and the Prospectus.

### Treatment of Application

If your Application is incomplete or otherwise invalid, for example if the Application Form is not completed correctly or the accompanying payment is for the wrong amount, the Issuers may still treat it as valid. The Issuers reserve the right to refuse any Application or to accept an Application in part only, without providing a reason.

The decision of the Issuers as to whether to treat your Application as valid, and any changes made by the Issuers to complete your Application, will be final. The decision on the number of Shares to be allocated to you will also be final. You will not be allocated more Shares than can be purchased with the payment you have made. If your Application is not accepted, or is accepted in part, you will receive a refund of the balance without interest within five Business Days after the Allotment Date. Refunds will be paid in the manner you elect any future dividend payments to be paid.

### Privacy Policy

If you apply for Shares, you will be asked to provide personal information to the Issuers, the Registrar and their respective agents who will collect and hold the personal information provided by you in connection with your Application. Your personal information will be used for considering, processing and corresponding with you about your Application and in connection with your holding of Shares, including sending you information concerning Scales, your Shares and other matters Scales considers may be of interest to you by virtue of your holding of Shares. To do these things, the Issuers or the Registrar may disclose your personal information to each other, their respective related companies and agents, contractors or third party service providers to whom they outsource services such as mailing and registry functions. However, all of these parties will be bound by the same privacy policies as the Issuers and the Registrar.

In addition, if you elect to pay by one-time direct debit, the Registrar will communicate with your nominated bank (including providing your personal information) for the purposes of processing your payment.

Failure to provide the required personal information may mean that your Application Form is not able to be processed efficiently, if at all.

Where the Issuers and the Registrar hold personal information about you in such a way that it can be readily retrieved, you have a right to obtain from the Issuers and the Registrar confirmation of whether or not they hold such personal information, and to access and seek correction of that personal information under the Privacy Act 1993 by contacting the privacy officers of the Issuers and the Registrar at their respective addresses shown in the Directory. You can also access your information on the Registrar's website: [www.investorcentre.com/nz](http://www.investorcentre.com/nz) (you will be required to enter your CSN and FIN).

# Glossary

<b>Allotment Date</b>	24 July 2014, unless brought forward or extended by the Issuers
<b>Applicant</b>	A person who submits an Application Form
<b>Application</b>	An application to subscribe for Shares offered under this Investment Statement and the Prospectus
<b>Application Form</b>	An application form attached to or accompanying this Investment Statement to subscribe for Shares
<b>Average Prospective Net Debt</b>	Calculated as the post Offer term debt balance of \$30 million plus the average net working capital facility balance (calculated as the average of the working capital facility balances as at 30 June 2014 and 31 December 2014 adjusted for any cash or overdraft balances).
<b>Broker Firm Offer</b>	The offer of Shares under this Investment Statement and the Prospectus to New Zealand resident retail clients of brokers who have received an allocation from their broker
<b>Business Day</b>	A day on which the NZX Main Board is open for trading
<b>CAGR</b>	Compound annual growth rate
<b>Companies Act</b>	Companies Act 1993
<b>Constitution</b>	The constitution of Scales, as amended from time to time
<b>Corporations Act</b>	Corporations Act 2001 of the Commonwealth of Australia
<b>CSN</b>	Common Shareholder Number
<b>Director</b>	A director of Scales
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>Existing Senior Executive LTI Scheme</b>	The existing senior executive LTI scheme described in <i>Section 5.5: Board, Senior Management and Corporate Governance of the Prospectus</i>
<b>Fern Ridge Produce</b>	Fern Ridge Produce Limited
<b>Final Price</b>	The price per Share at which the Shares will be allotted, expected to be determined on or about 4 July 2014
<b>Financial Reporting Act</b>	Financial Reporting Act 1993
<b>FMCG</b>	Fast moving consumer goods
<b>FOB</b>	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)
<b>FY</b>	Financial year. If followed by 'F' this indicates prospective information for a future financial year
<b>Group</b>	Scales and each of its subsidiaries
<b>ha</b>	Hectare, a metric unit of measurement defined as 10,000 square metres
<b>IFRS</b>	International Financial Reporting Standards
<b>Indicative Price Range</b>	\$1.60 to \$1.85 per Share
<b>Institutional Investors</b>	Investors to whom the Joint Lead Managers determine an offer or invitation of securities may be made without the need for a lodged prospectus (or other formality, other than a formality with which the Issuers and the Promoters are willing to comply), including in New Zealand persons to whom offers or invitations can be made without the need for a registered prospectus under the Securities Act
<b>Institutional Offer</b>	The invitation to selected NZX Firms and Institutional Investors in New Zealand, Australia and certain other jurisdictions
<b>Investment Statement</b>	This document
<b>Issuers</b>	Scales and the Offeror
<b>Joint Lead Managers</b>	First NZ Capital Securities Limited and Deutsche Craigs Limited
<b>KL</b>	Kilolitre
<b>Liqueo</b>	Liqueo Bulk Storage Limited
<b>Management Shareholders</b>	Andy Borland, Steve Kennelly, James Lee, Andrew van Workum, Andrew McDougall, Richard Hill, Peter Drury, Kevin Cahill, Steve Foote, Kent Ritchie, Graham Klein and John Sainsbury (or their nominee that holds Shares)
<b>Meateor</b>	Meateor Foods Limited
<b>MPI</b>	Ministry for Primary Industries

<b>Mr Apple</b>	Mr Apple New Zealand Limited
<b>MT</b>	Metric tonnes
<b>Net Profit</b>	Net profit after tax
<b>NZ GAAP or GAAP</b>	New Zealand Generally Accepted Accounting Practice
<b>NZIFRS</b>	New Zealand equivalents to International Financial Reporting Standards
<b>NZX</b>	NZX Limited
<b>NZX Firm</b>	An entity designated as an NZX Firm under the Participant Rules of NZX
<b>NZX Listing Rules</b>	The listing rules applying to the NZX Main Board as amended from time to time
<b>NZX Main Board</b>	The main board equity security market, operated by NZX
<b>Offer</b>	The offer of Shares pursuant to this Investment Statement and the Prospectus
<b>Offeror</b>	SCL Limited
<b>PFI</b>	Prospective financial information
<b>Pohutukawa</b>	Pohutukawa Delta Limited (being a member of Pohutukawa Private Equity II Fund)
<b>Pohutukawa Investor</b>	Any person who was recorded in the share register of Pohutukawa as a holder of redeemable preference shares in Pohutukawa as at 5.00pm on 30 May 2014 and who has a New Zealand address
<b>Pohutukawa Offer</b>	The offer of Shares under this Investment Statement and the Prospectus to Pohutukawa Investors
<b>Polarcold</b>	Polarcold Stores Limited
<b>Profruit</b>	Profruit (2006) Limited
<b>Promoters</b>	Direct Capital IV GP Limited and its directors who are not also directors of an Issuer (being Anthony David Batterton, Ross Andrew George and William James Kermodé)
<b>Prospectus</b>	The Prospectus in respect of the Offer
<b>Registrar</b>	Computershare Investor Services Limited
<b>RSE Scheme</b>	The Recognised Seasonal Employer Policy administered by Immigration New Zealand
<b>Scales or the Company</b>	Scales Corporation Limited
<b>Scales Logistics</b>	Scales Logistics Limited
<b>Securities Act</b>	Securities Act 1978
<b>Securities Regulations</b>	Securities Regulations 2009
<b>Selacs Insurance</b>	Selacs Insurance Limited
<b>Selling Shareholders</b>	Direct Capital Investments Limited and all other Shareholders of Scales (including the Management Shareholders) who choose to sell Shares which will be made available under the Offer
<b>Share</b>	An ordinary share in Scales
<b>Shareholder</b>	A holder of one or more Shares
<b>TCE</b>	Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight
<b>Whakatu Coldstores</b>	Whakatu Coldstores Limited

#### Additional Definitions for the Key Offer Statistics and Key Investment Metrics

<b>EV/EBITDA multiple</b>	EV divided by EBITDA for the respective forecast financial year. This is a valuation metric that enables comparison with other listed companies.
<b>Implied cash dividend yield</b>	Dividends per Share for the respective prospective financial year divided by the Indicative Price Range. Based on the cash cost to Scales, not necessarily the cash received by investors which will depend on individual investor tax rates and the assumption that the investor holds Shares over the full year.
<b>Implied gross dividend yield</b>	Dividends per share for the respective prospective financial year, grossed up for imputation credits expected to be attached to the dividend (calculated at a tax rate of 28%), divided by the Indicative Price Range. This metric is used to approximate the return to the average investor on a pre-tax basis.
<b>Indicative enterprise value (EV)</b>	Indicative market capitalisation plus Average Prospective Net Debt.
<b>Indicative market capitalisation</b>	The number of existing Shares on issue multiplied by the Indicative Price Range plus \$30 million.
<b>Price/earnings ratio</b>	Indicative market capitalisation divided by Net Profit for the respective forecast financial year. This is a valuation metric that enables comparison with other listed companies.

# Appendix – Prospective Financial Information

This appendix contains:

- consolidated prospective financial information for the Group, as required by clause 11(1)(c) of Schedule 1 of the Securities Regulations, which includes: prospective consolidated statements of comprehensive income, prospective consolidated statements of changes in equity, prospective consolidated statements of financial position and prospective consolidated statements of cash flows;
- the basis of preparation of the prospective financial statements, including the significant accounting policies applied;
- a description of the Board's best estimate general and specific assumptions that underpin the PFI contained in this Investment Statement; and
- an analysis of the sensitivity of PFI to changes in a number of key assumptions.

## Basis of Preparation

These prospective financial statements have been prepared in accordance with FRS-42: Prospective Financial Statements, subject to the Securities Regulations.

During February 2014, Scales shareholders approved a proposal for the demerger of the Investments operating division from the Group. This demerger was effective on 30 April 2014. The prospective consolidated statement of comprehensive income for the year ending 31 December 2014 includes the results of the Investments division for the four months ended 30 April 2014 under the heading "Discontinued operations" and the prospective consolidated statement of changes in equity for the year ending 31 December 2014 includes the movements relating to the demerger of that division.

The PFI is based on the Board's assessment of events and conditions existing at the date of this Investment Statement and the assumptions set out on pages 53 to 64 and accounting policies as discussed below. The directors believe that the PFI has been prepared with due care and attention, and consider the best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Investment Statement. However, actual results are likely to vary from the information presented as anticipated results may not occur as expected, and the variations may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI

will be achieved and investors are cautioned not to place undue reliance on the PFI.

The following PFI has been prepared for the purpose of the Offer and may not be suitable for any other purpose.

The PFI is prepared entirely on a forecast basis. FY2014F has, however, been checked against operating metrics for the four months to 30 April 2014.

This PFI, including the assumptions underlying it, has been prepared by management and approved by the Board. The Board approved the PFI on 19 June 2014 for use in this Investment Statement.

PFI, by its nature, involves risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to, those set out in *Section 6: What are my Risks?* of this Investment Statement and the Prospectus.

There is no present intention to update the PFI or to publish PFI in the future, other than as required by financial reporting standards. We will present a comparison of this PFI with actual financial results when reported in accordance with NZ GAAP and Regulation 44 of the Securities Regulation.

## Prospective Consolidated Financial Statements

### Prospective Consolidated Statements of Changes in Equity

\$000	Share Capital	Properties Revaluation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 January 2014	61,957	27,408	423	85,525	175,313
Profit for the year – continuing operations	–	–	–	15,655	15,655
Profit for the year – discontinued operations	–	–	–	270	270
Other comprehensive income for the year – discontinued operations	–	–	–	1,206	1,206
Total comprehensive income for the year	–	–	–	17,131	17,131
Dividends paid	–	–	–	(13,681)	(13,681)
Cash distribution	–	–	–	(8,563)	(8,563)
Demerger of the Investments division	–	(319)	–	(53,100)	(53,419)
Issue of share capital	30,000	–	–	–	30,000
Share issue costs	(1,125)	–	–	–	(1,125)
<b>Balance at 31 December 2014</b>	<b>90,832</b>	<b>27,089</b>	<b>423</b>	<b>27,312</b>	<b>145,656</b>
Profit for the year	–	–	–	20,794	20,794
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	20,794	20,794
Dividends paid	–	–	–	(12,970)	(12,970)
<b>Balance at 31 December 2015</b>	<b>90,832</b>	<b>27,089</b>	<b>423</b>	<b>35,136</b>	<b>153,480</b>

## Prospective Consolidated Statements of Comprehensive Income

<b>\$000</b>	<b>FY2014F</b>	<b>FY2015F</b>
<b>Continuing operations:</b>		
Revenue	253,927	260,393
Cost of Sales	(176,671)	(179,597)
Gross Profit	77,256	80,796
Share of profits of associate companies and joint ventures accounted for using the equity method	1,038	1,412
Administration and operating expenses	(39,483)	(40,960)
Offer costs	(2,875)	–
<b>EBITDA</b>	<b>35,936</b>	<b>41,248</b>
Depreciation & Amortisation	(9,323)	(9,630)
<b>EBIT</b>	<b>26,613</b>	<b>31,618</b>
Interest	(4,156)	(3,287)
<b>Profit Before Income Tax from Continuing Operations</b>	<b>22,457</b>	<b>28,331</b>
Income Tax Expense	(6,802)	(7,537)
<b>Net Profit from Continuing Operations</b>	<b>15,655</b>	<b>20,794</b>
<b>Discontinued operations:</b>		
Net profit for the year from discontinued operations	270	–
<b>Net Profit</b>	<b>15,925</b>	<b>20,794</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Items relating to discontinued operations:</i>		
Gain on shares in listed company	1,206	–
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,206</b>	<b>–</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>17,131</b>	<b>20,794</b>

Prospective Consolidated Statements of Financial Position

\$000	FY2014F	FY2015F
<b>Equity</b>		
Share capital	90,832	90,832
Properties revaluation reserve	27,089	27,089
Hedging reserve	423	423
Retained earnings	27,312	35,136
<b>Total Equity</b>	<b>145,656</b>	<b>153,480</b>
Represented by:		
<b>Current Assets</b>		
Cash and bank balances	–	2,102
Trade and other receivables	12,998	13,334
Other financial assets	1,904	1,749
Inventories	11,134	11,041
Other current assets	2,132	2,132
<b>Total Current Assets</b>	<b>28,168</b>	<b>30,358</b>
<b>Non-Current Assets</b>		
Investments accounted for using the equity method	5,052	5,052
Other financial assets	3,051	3,051
Property, plant and equipment	145,210	145,562
Biological assets	28,465	29,800
Goodwill	5,319	5,319
Other intangible assets	1,251	917
<b>Total Non-Current Assets</b>	<b>188,348</b>	<b>189,701</b>
<b>Total Assets</b>	<b>216,516</b>	<b>220,059</b>
<b>Current Liabilities</b>		
Trade and other payables	(14,925)	(15,115)
Short term borrowings and bank overdraft	(4,716)	–
Current tax liabilities	(2,267)	(2,512)
Other financial liabilities	(599)	(599)
<b>Total Current Liabilities</b>	<b>(22,507)</b>	<b>(18,226)</b>
<b>Non-Current Liabilities</b>		
Borrowings	(30,000)	(30,000)
Deferred tax liabilities	(16,688)	(16,688)
Other financial liabilities	(1,665)	(1,665)
<b>Total Non-Current Liabilities</b>	<b>(48,353)</b>	<b>(48,353)</b>
<b>Total Liabilities</b>	<b>(70,860)</b>	<b>(66,579)</b>
<b>Net Assets</b>	<b>145,656</b>	<b>153,480</b>

## Prospective Consolidated Statements of Cash Flows

<b>\$000</b>	<b>FY2014F</b>	<b>FY2015F</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Receipts from customers	253,407	260,056
Dividends received	1,038	1,412
	254,445	261,468
<i>Cash was disbursed to:</i>		
Payments to suppliers and employees	(219,641)	(220,609)
Interest paid	(4,156)	(3,287)
Income tax paid	(6,104)	(7,292)
	(229,901)	(231,188)
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>	<b>24,544</b>	<b>30,280</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Other advances repaid	155	155
	155	155
<i>Cash was applied to:</i>		
Investment in biological assets	(1,494)	(1,000)
Purchase of other intangible assets	(30)	(55)
Purchase of property, plant and equipment	(8,970)	(9,592)
Cash at bank at the beginning of the year transferred with demerged group	(313)	–
	(10,807)	(10,647)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>(10,652)</b>	<b>(10,492)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<i>Cash was provided from:</i>		
Proceeds from borrowings	2,500	–
Shares issued net of share issue costs	29,175	–
	31,675	–
<i>Cash was applied to:</i>		
Borrowings repaid	(30,000)	(2,500)
Dividends paid	(13,681)	(12,970)
Cash distribution	(8,563)	–
	(52,244)	(15,470)
<b>NET CASH (USED IN) FINANCING ACTIVITIES</b>	<b>(20,569)</b>	<b>(15,470)</b>
<b>NET (DECREASE) INCREASE IN NET CASH</b>	<b>(6,677)</b>	<b>4,318</b>
Cash and cash equivalents at the beginning of the year	4,461	(2,216)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>(2,216)</b>	<b>2,102</b>
<i>Represented by:</i>		
Cash and bank balances	–	2,102
Bank overdraft	(2,216)	–
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>(2,216)</b>	<b>2,102</b>

**Overview of Prospective Financial Information by Segment**

Scales comprises the following operating divisions that will continue following the demerger:

- **Horticulture:** includes Mr Apple and a 50% interest in Fern Ridge Produce;
- **Storage & Logistics:** includes Polarcold, Whakatu Coldstores, Liqueo and Scales Logistics;
- **Food Ingredients:** includes Meateor and a 50% interest in Profruit; and

– **Other:** includes Head Office and the captive insurer Selacs Insurance.

As mentioned above, the Investments operating division was demerged from the Scales Group on 30 April 2014. The Investments division oversaw various property and shareholding investments.

**Prospective Segmental Reporting**

\$000	Horticulture	Storage & Logistics	Food Ingredients	Other	Inter-company Eliminations	Total
<b>31 DECEMBER 2014</b>						
Revenue from External Customers	154,967	63,455	35,489	16	–	253,927
Inter-segment Revenue	–	26,772	–	3,109	(29,881)	–
Total Segment Revenue	154,967	90,227	35,489	3,125	(29,881)	253,927
Total Segment Cost of Sales	(111,501)	(61,664)	(30,122)	–	26,616	(176,671)
<b>Gross Profit</b>	<b>43,466</b>	<b>28,563</b>	<b>5,367</b>	<b>3,125</b>	<b>(3,265)</b>	<b>77,256</b>
Share of profits of associate company and joint venture accounted for using the equity method	310	–	728	–	–	1,038
Administration and operating expenses	(21,264)	(14,588)	(2,186)	(4,710)	3,265	(39,483)
Offer costs	–	–	–	(2,875)	–	(2,875)
<b>EBITDA</b>	<b>22,512</b>	<b>13,975</b>	<b>3,909</b>	<b>(4,460)</b>	<b>–</b>	<b>35,936</b>
Depreciation & Amortisation	(3,979)	(4,673)	(599)	(72)	–	(9,323)
<b>EBIT</b>	<b>18,533</b>	<b>9,302</b>	<b>3,310</b>	<b>(4,532)</b>	<b>–</b>	<b>26,613</b>
Interest	(861)	(56)	–	(3,239)	–	(4,156)
<b>Profit Before Income Tax</b>	<b>17,672</b>	<b>9,246</b>	<b>3,310</b>	<b>(7,771)</b>	<b>–</b>	<b>22,457</b>
Income Tax Expense	(4,861)	(2,589)	(723)	1,371	–	(6,802)
<b>Net Profit from Continuing Operations</b>	<b>12,811</b>	<b>6,657</b>	<b>2,587</b>	<b>(6,400)</b>	<b>–</b>	<b>15,655</b>
Current assets	6,147	8,117	11,117	3,134	(347)	28,168
Non-current assets	99,690	79,040	7,124	2,494	–	188,348
Current liabilities	(8,079)	(5,130)	(4,013)	(5,633)	347	(22,507)
Non-current liabilities	(8,744)	(9,261)	49	(30,397)	–	(48,353)
<b>Net Assets</b>	<b>89,014</b>	<b>72,766</b>	<b>14,277</b>	<b>(30,402)</b>	<b>–</b>	<b>145,656</b>
<b>31 DECEMBER 2015</b>						
Revenue from External Customers	158,881	66,702	34,794	16	–	260,393
Inter-segment Revenue	–	26,672	–	3,109	(29,781)	–
Total Segment Revenue	158,881	93,374	34,794	3,125	(29,781)	260,393
Total Segment Cost of Sales	(113,666)	(62,890)	(29,558)	–	26,517	(179,597)
<b>Gross Profit</b>	<b>45,215</b>	<b>30,484</b>	<b>5,236</b>	<b>3,125</b>	<b>(3,264)</b>	<b>80,796</b>
Share of profits of associate company and joint venture accounted for using the equity method	342	–	1,070	–	–	1,412
Administration and operating expenses	(21,508)	(15,674)	(2,186)	(4,856)	3,264	(40,960)
<b>EBITDA</b>	<b>24,049</b>	<b>14,810</b>	<b>4,120</b>	<b>(1,731)</b>	<b>–</b>	<b>41,248</b>
Depreciation & Amortisation	(3,951)	(5,008)	(599)	(72)	–	(9,630)
<b>EBIT</b>	<b>20,098</b>	<b>9,802</b>	<b>3,521</b>	<b>(1,803)</b>	<b>–</b>	<b>31,618</b>
Interest	(861)	(56)	–	(2,370)	–	(3,287)
<b>Profit Before Income Tax</b>	<b>19,237</b>	<b>9,746</b>	<b>3,521</b>	<b>(4,173)</b>	<b>–</b>	<b>28,331</b>
Income Tax Expense	(5,290)	(2,729)	(686)	1,168	–	(7,537)
<b>Net Profit</b>	<b>13,947</b>	<b>7,017</b>	<b>2,835</b>	<b>(3,005)</b>	<b>–</b>	<b>20,794</b>
Current assets	6,097	8,300	11,072	5,236	(347)	30,358
Non-current assets	98,875	81,502	6,822	2,502	–	189,701
Current liabilities	(8,313)	(5,345)	(3,932)	(984)	347	(18,226)
Non-current liabilities	(8,744)	(9,261)	49	(30,397)	–	(48,353)
<b>Net Assets</b>	<b>87,915</b>	<b>75,196</b>	<b>14,011</b>	<b>(23,643)</b>	<b>–</b>	<b>153,480</b>

## Accounting Policies

The significant accounting policies applied to the preparation of the PFI are set out in the audited consolidated financial statements for FY2013 in *Section 7.5: Audited Financial Statements for the year ended 31 December 2013* of the Prospectus.

The 2014 financial statements will also include the following accounting policy in respect of 'Share-based payment arrangements':

### *Share-based payment arrangements*

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision on the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

No other changes to financial reporting standards under NZ GAAP are expected to materially affect us during FY2014F and FY2015F. However, any further changes to NZ GAAP could necessitate changes in the accounting policies currently adopted and any new or amended financial reporting standards, or interpretations, may affect the actual financial results or financial position.

## General Assumptions

The PFI in this appendix is based on various best estimate assumptions. The general assumptions are summarised below and should be read in conjunction with the risk factors set out in *Section 6: What are my Risks?* of this Investment Statement and the Prospectus.

- **Economic environment:** there will be no material changes in the economic outlook for the New Zealand and international markets in which we sell products and services beyond normal market movements in prices.
- **Competitive, legislative and regulatory environment:** there will be no material change in our competitive, legislative or regulatory environment, including in relation to the RSE scheme.
- **Biosecurity:** there will not be any pest or disease incursion or other biosecurity events or any other adverse publicity about us or New Zealand food products, whether or not legitimate.
- **Operating environment:** there will be no material costs incurred through either industrial or contractual disputes. There will be no delays in commissioning our new Auckland coldstore.
- **Natural environment:** there will be no material disruption or damage to assets from earthquakes, flooding, fires or other natural disasters or hazards that may disrupt our operations. Ordinary frosts and hail events in Hawke's Bay are expected, especially during the winter season, and are generally unproblematic. Such events during the spring and summer seasons can cause damage and an average level of damage is assumed.

- **Key customers and suppliers:** there will be no material change in existing contractual, business or operational relationships with our key customers or suppliers. Should any suppliers or customers be lost it is assumed they could be replaced on materially similar terms.
- **Business acquisitions or disposals:** there will be no material business acquisitions or disposals by us, other than the demerger (refer to the heading "Specific Assumptions, Head Office and Selacs Insurance" below).
- **New Zealand and international tax laws:** there will be no material change in tax laws applicable to us.
- **No Claims or Litigation:** there will be no material claims, proceedings or litigation whether we are the party making the claim or defending such claim.
- **Financial Reporting Standards:** there will be no change in financial reporting standards or accounting interpretations which would have a material effect on us.

**Specific Assumptions**

Set out as follows are specific best estimate assumptions that have been adopted in preparing the PFI.

**Horticulture**

**Key Operational Metrics**

		<b>FY2012</b>	<b>FY2013</b>	<b>FY2014F</b>	<b>FY2015F</b>
<b>Volumes exported</b>					
Mr Apple owned and leased orchards	TCE 000s	2,144	2,833	2,569	2,717
External growers	TCE 000s	1,500	1,340	1,318	1,287
<b>Total</b>	<b>TCE 000s</b>	<b>3,645</b>	<b>4,173</b>	<b>3,887</b>	<b>4,004</b>
Weighted average sale price	NZD / TCE	24.4	28.7	27.2	27.2
<b>Orchard</b>					
Total planted orchard (at time of harvest)	ha.	852	1,028	1,037	1,049
Fully mature equivalent planted orchard <sup>24</sup>	ha.	716	858	871	898
Export yield/planted orchard	TCEs / ha.	2,516	2,755	2,478	2,590
Export yield/mature equivalent planted orchard	TCEs / ha.	2,996	3,300	2,948	3,026

**Profitability**

<b>\$000</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014F</b>	<b>FY2015F</b>
<b>Revenue</b>	<b>134,227</b>	<b>174,171</b>	<b>154,967</b>	<b>158,881</b>
Sea freight & transport costs	(26,665)	(29,489)	(25,070)	(25,828)
Post-harvest processing	(18,470)	(22,382)	(21,414)	(21,769)
Payments to external growers	(31,364)	(35,092)	(31,950)	(31,071)
Orchard costs	(19,166)	(25,987)	(22,864)	(24,451)
Other direct costs	(8,912)	(14,441)	(10,203)	(10,547)
<b>Cost of Sales</b>	<b>(104,577)</b>	<b>(127,391)</b>	<b>(111,501)</b>	<b>(113,666)</b>
<b>Gross Profit</b>	<b>29,650</b>	<b>46,780</b>	<b>43,466</b>	<b>45,215</b>
Gross Profit Margin	22%	27%	28%	28%
Administration, operating expenses, and other gains and losses	(19,312)	(21,743)	(21,264)	(21,508)
<b>EBITDA (excluding Scales' share of Fern Ridge Produce)</b>	<b>10,338</b>	<b>25,037</b>	<b>22,202</b>	<b>23,707</b>
Share of Fern Ridge Produce Net Profit	–	490	310	342
<b>Horticulture EBITDA</b>	<b>10,338</b>	<b>25,527</b>	<b>22,512</b>	<b>24,049</b>
Depreciation & amortisation	(3,418)	(3,815)	(3,979)	(3,951)
<b>Horticulture EBIT</b>	<b>6,920</b>	<b>21,712</b>	<b>18,533</b>	<b>20,098</b>
Capital employed	87,824	93,429	97,758	96,659
Return on capital employed	8%	23%	19%	21%

<sup>24</sup> The fully mature equivalent planted orchard is an operating metric that gauges the effective maturity of the orchard at the time of harvest. It reports the comparable area of fully mature orchard that would theoretically produce an equivalent volume of apples. If no redevelopment were to take place for 6 years, the actual planted and mature equivalent orchard would be identical or nearly identical.

## Revenue

Horticultural revenues are principally driven by the quantity of apples sold on export markets and the price, in NZD per export carton, achieved for those apples. Some additional revenues are earned from other activities.

### Apple volumes

Following a very strong growing season in 2013, total export volumes will decrease by 6.9% from 4.2 million TCEs in FY2013 to 3.9 million TCEs in FY2014F. Between FY2014F and FY2015F total volumes will increase, driven by increased volumes from our own orchards.

Mr Apple volumes are a function of:

- **Total planted orchard:** the total planted orchard increasing from 1,028 ha in FY2013 to 1,037 ha in FY2014F and 1,049 ha in FY2015F. These increases mostly reflect planting of small areas previously planted in stonefruit, pears and grapes in the two large leases entered into during 2012.

- **Export yields per ha:** export yields per ha decreasing from a high of 2,755 TCEs per ha in FY2013 to 2,478 TCEs per ha in FY2014F. This decrease is largely due to a localised hail event in December 2013 that damaged apples on the trees. Export yields will increase by 4.5% to 2,590 TCEs per ha in FY2015F. This increase reflects the maturing of recently developed orchard and achieving 'average' yields for the season. We note that 'average' yields make some provision for hail or climatic damage, although assume less damage than that caused by the hail event in December 2013.

External grower FY2014F volumes are marginally lower than FY2013. A further marginal decrease in FY2015F provides for some Nelson growers potentially exiting the industry.

### Apple prices

The weighted average price per TCE (on a FOB basis) achieved for all apples will decrease from \$28.70 in FY2013 to \$27.20 in FY2014F (a 5.2% decrease). Weighted average prices remain static for FY2015F. The weighted average price of apples is a function of:

- **Individual prices for each variety in each key market:** for most markets and varieties, prices will reduce for FY2014F so that not all of the uplift achieved in FY2013 is repeated. For FY2015F, prices will broadly remain at the same level as FY2014F, with the exception of three small reductions in the prices for Braeburn, Royal Gala and Fuji apples in their key trading markets.

NZD/TCE	FY2012	FY2013	FY2014F	FY2015F
<b>Premium varieties</b>				
NZ Queen	34.1	37.9	35.6	35.6
Pink Lady	26.1	31.6	28.8	28.8
Red Sports (Fuji and Royal Gala)	25.9	29.3	29.2	28.6
Other	34.8	38.0	34.9	34.8
<b>Weighted average</b>	<b>27.8</b>	<b>31.7</b>	<b>30.5</b>	<b>30.4</b>
<b>Traditional varieties</b>				
Braeburn	21.8	28.1	24.8	24.4
Royal Gala	22.6	26.4	25.7	25.0
Other	23.5	25.6	25.1	24.4
<b>Weighted average</b>	<b>22.5</b>	<b>26.9</b>	<b>25.1</b>	<b>24.6</b>
<b>Total weighted average price</b>	<b>24.4</b>	<b>28.7</b>	<b>27.2</b>	<b>27.2</b>

– **Foreign exchange rates:** the table below sets out weighted average exchange rates for FY2012 through FY2015F for all major currencies transacted (USD, EUR, GBP, and CAD). These rates reflect a blend of actual rates contracted under foreign exchange instruments and spot rates as at 26 March

2014 for unhedged exposure. Currencies are broadly unchanged across FY2014F and FY2015F from FY2013 levels based on significant foreign exchange instruments in place covering approximately 73% and 64% of all FY2014F and FY2015F own fruit sales respectively.

**Contracted Rates**

Average Exchange Rates	FY2014F	FY2015F
NZD:EUR	0.59	0.58
NZD:USD	0.78	0.77
NZD:GBP	0.49	0.50
NZD:CAD	0.81	0.79

**Cover in Place**

\$000	FY2014F	FY2015F
NZD:EUR	14,200	12,750
NZD:USD	12,400	10,500
NZD:GBP	5,050	4,550
NZD:CAD	550	350

**Weighted Average Rates Assumed**

Average Exchange Rates	FY2012	FY2013	FY2014F	FY2015F
NZD:EUR	0.64	0.61	0.60	0.60
NZD:USD	0.80	0.81	0.83	0.83
NZD:GBP	0.51	0.52	0.50	0.50
NZD:CAD	0.80	0.83	0.90	0.88

**Other Revenues**

In addition to core export sale revenues (noted on a FOB basis above), reported revenues also include:

– Sea freight, other selling costs and cost recoveries. This revenue item is a recovery of sea freight, other selling costs, or other costs incurred on behalf of external growers that are not incorporated in the FOB prices stated above. This revenue item is driven by movements in volumes and the appropriate costs discussed in further detail in the section below. This cost is expected to decrease for FY2014F due to lower volumes and reduced sea freight costs (on a per TCE basis) and remain consistent for FY2015F.

– Local and process revenue. Small, damaged, or non-export grade apples are sold either for processing or on the local market. This represents a small portion of revenues and assumed to remain at approximately 2% of total FOB export receipts for FY2014F and FY2015F.

– Other service revenues. Mr Apple operates a number of ancillary divisions related to its core business. These divisions provide a wide range of services including bin hireage, domestic transport, and accommodation rental for seasonal employees amongst others. Revenues are charged to recover matching costs and overheads associated with providing these services. In aggregate approximately \$5 million in external revenues are charged annually. This revenue is expected to remain consistent for FY2014F and FY2015F.

– Packhouse and coolstore revenues from external Hawke’s Bay growers. Mr Apple charges market rates for packhouse and coolstore services provided to external Hawke’s Bay growers. No material changes to prices per TCE are forecast, with only minor movements in these revenues being driven by immaterial changes in overall Hawke’s Bay external fruit volumes.

## Direct Costs

Total direct costs will decrease from \$127.4 million in FY2013 to \$111.5 million in FY2014F (a 12.5% reduction). Costs will increase in FY2015F to \$113.7 million. There are four core components to direct costs:

– **Sea freight and transport costs:** on a per TCE basis, sea freight and transport costs reduce by almost 9%. These savings are due to higher proportions of fruit being sold in Asian and Middle Eastern markets (accessing lower shipping rates) and sea freight competition improving options and lowering cost. Sea freight costs account for more than 90% of total transport costs. When this per TCE saving is applied to the lower volumes forecast for FY2014F, the aggregate cost reduces by 15.0% from FY2013 to FY2014F.

Sea freight and transport costs per TCE remain static to FY2015F. Applied to the slightly higher volume, costs increase by 3.0% from FY2014F to FY2015F.

– **Post-harvest processing (costs of operating the packhouses and coolstores):** these costs will remain broadly equivalent on a per TCE basis between FY2013, FY2014F and FY2015F. Due to lower volumes being handled, the aggregate direct cost reduces by \$1.0 million from FY2013 to FY2014F and increases by \$0.4 million to FY2015F.

– **Payments to external growers:** growers receive the balance of the sale price less sea freight costs, pooled costs (which include various costs involved in getting apples to market such as insurance, compliance, and value-added packhouse charges – pooled costs are approximately \$1.50/TCE) and sales commission. FY2014F reduced sale prices represent the majority of the decrease between FY2013 and FY2014F. The total cost decreases again slightly in FY2015F due to lower assumed volumes from Nelson growers.

– **Orchard costs:** these costs will decrease from \$26.0 million in FY2013 to \$22.9 million in FY2014F (a decrease of 12%). This decrease is partially due to lower volumes of fruit, but also reflects a reduced spend on pruning and thinning following high pruning and thinning costs in FY2013. This cost will increase to \$24.5 million in FY2015F (an increase of 7%). The subsequent increase reflects higher volumes of Mr Apple owned and leased orchard grown-fruit, but also a return to five year average thinning and pruning costs (as measured on a per ha basis).

## Fern Ridge Produce

Fern Ridge Produce total profits reduce by 37% between FY2013 and FY2014F. This reduction is due to lower volumes of product being handled. An approximate 10% increase in

products handled for FY2015F increases profit by 10% from the FY2014F result. The 50% share of Fern Ridge Produce's result represents less than 1.5% of Horticulture division EBITDA throughout the PFI period.

Fern Ridge Produce's Net Profit is assumed to be remitted in full to its shareholders as a cash distribution.

## Administration, Operating Expenses, and Other Gains and Losses

FY2012 and FY2013 administration, operating expenses, and other gains and losses, included a number of year-end IFRS and other adjustments amounting to \$3.1 million in FY2012 and \$1.9 million in FY2013. Due to the nature of these items, no equivalent adjustments are forecast for FY2014F or FY2015F.

An underlying increase in administration and operating expenses between FY2013 and FY2014F is largely due to an additional coolstore lease entered into at the beginning of FY2014F and additional sales and marketing overheads.

**Storage & Logistics**

**Key Operational Metrics**

		<b>FY2012</b>	<b>FY2013</b>	<b>FY2014F</b>	<b>FY2015F</b>
<b>Polarcold and Whakatu Coldstores</b>					
<i>Available refrigerated coldstore space (at end of year):</i>					
Owned	m3 000s	320.7	320.7	320.7	320.7
Leased	m3 000s	236.2	236.2	243.1	338.8
Managed	m3 000s	42.8	42.8	42.8	42.8
<b>Total</b>	<b>m3 000s</b>	<b>599.7</b>	<b>599.7</b>	<b>606.6</b>	<b>702.3</b>
Average annual utilisation of coldstore space	(%)	72%	71%	68%	65%
<b>Liqueo</b>					
Installed capacity of all tanks	MT 000s	20,060	20,000	22,200	22,200
Average capacity under fixed lease	MT 000s	9,879	9,780	11,259	12,530

**Profitability**

<b>\$000</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014F</b>	<b>FY2015F</b>
Storage & Logistics – Total Revenue	77,243	91,662	90,227	93,374
Storage & Logistics – Total Cost of Sales	(49,479)	(62,783)	(61,664)	(62,890)
<b>Gross Profit</b>	<b>27,764</b>	<b>28,879</b>	<b>28,563</b>	<b>30,484</b>
Gross Profit Margin	36%	32%	32%	33%
Administration, operating expenses, and other gains and losses	(13,736)	(15,016)	(14,588)	(15,674)
<b>EBITDA</b>				
All Coldstores	11,785	11,858	11,616	11,741
Liqueo	1,451	1,251	1,364	1,986
Scales Logistics	792	754	995	1,083
<b>Total Storage &amp; Logistics EBITDA</b>	<b>14,028</b>	<b>13,863</b>	<b>13,975</b>	<b>14,810</b>
<b>Depreciation &amp; Amortisation</b>				
All Coldstores	(3,244)	(3,541)	(3,882)	(4,151)
Liqueo	(656)	(673)	(703)	(768)
Scales Logistics	(9)	(99)	(88)	(89)
<b>Total Depreciation &amp; Amortisation</b>	<b>(3,909)</b>	<b>(4,313)</b>	<b>(4,673)</b>	<b>(5,008)</b>
<b>EBIT</b>				
All Coldstores	8,541	8,317	7,734	7,590
Liqueo	795	578	661	1,218
Scales Logistics	783	655	907	994
<b>Total Storage &amp; Logistics EBIT</b>	<b>10,119</b>	<b>9,550</b>	<b>9,302</b>	<b>9,802</b>
Capital employed	75,872	77,617	82,027	84,457
Return on capital employed	13%	12%	11%	12%

### **Polarcold and Whakatu Coldstores**

Coldstore revenues are principally driven by the total refrigerated storage space, the average utilisation of that space, and the amount charged for storage.

#### **Total refrigerated storage space**

The total refrigerated storage space is unchanged between FY2013 and FY2014F, and increases by 16% in FY2015F following the completion of the Auckland coldstore in late 2015.

#### **Leased compared to owned space**

Polarcold and Whakatu Coldstores currently own approximately 57% of their refrigerated storage space, with the remaining 43% leased. These percentages change to 49% and 51% respectively in FY2015F.

On a cubic metre basis, total lease charges are forecast to remain consistent with historical levels. However, due to the Auckland coldstore, total lease costs increase in FY2015F.

#### **Average coldstore utilisation**

Utilisation measures the average occupancy of the space available for storage within each coldstore facility over a year. The utilisation of individual coldstores will approach 100% during peak production months and reduce over the New Zealand winter.

Across all facilities and over the entire year, utilisation decreases from 71% in FY2013 to 68% in FY2014F due to lower volumes of meat and more rapid turnaround of product. With the Auckland coldstore commencing operations in FY2015F, and with no product in store on opening, utilisation for FY2015F is lower than FY2014F. Over time, the Auckland coldstore is expected to achieve utilisation rates consistent with the Group average.

### **Storage charges**

The amount charged for storage and handling (load in and load out charges) is expected to remain reasonably static over the forecast period. Inflationary increases in storage charges will be negotiated on the renewal of key contracts.

#### **Coldstore EBITDA**

Total EBITDA across all coldstores decreases slightly (approximately \$0.2 million) between FY2013 and FY2014F. Lower volumes are expected following particularly high volumes in FY2012 and FY2013. Total EBITDA increases slightly (approximately \$0.1 million) in FY2015F. This increase is largely driven by energy savings following the engine room upgrade at Timaru (slightly more than \$0.3 million) offsetting start-up losses from the Auckland coldstore (slightly less than \$0.3 million).

Note that losses in the first year of trading for the Auckland coldstore are largely due to initial set-up costs, and the time it will take to reach normal levels of static storage, which is expected to be late in the 2015 calendar year or early in the 2016 calendar year.

#### **Liqueo**

##### **Revenues**

Total revenues will decrease slightly from FY2013 to FY2014F. This decrease reflects a reduction in drumming service revenues and sale of proprietary tallow (Liqueo occasionally buys small volumes of waste tallow to refine and sell on the open market), partially offset by higher storage revenues. Revenues increase in FY2015F mostly due to additional storage revenues from an existing customer to service anticipated increased storage requirements.

### **EBITDA**

Despite a reduction in revenues between FY2013 and FY2014F, EBITDA increases due to higher levels of storage revenue and lower outside storage costs. EBITDA increases again in FY2015F once again due to the increased storage volumes at Timaru.

### **Scales Logistics**

#### **Revenues**

Scales Logistics revenue will increase by 3.8% in FY2014F and 1.7% in FY2015F. The increased revenue is mostly due to increased trade from Balance Cargo and non-Scales sea freight customers.

#### **EBITDA**

Scales Logistics EBITDA increases by \$0.2 million from \$0.8 million in FY2013 to \$1.0 million in FY2014F. The increase is mostly due to the increased trade from Balance Cargo which sees the operation improve from loss making (in FY2013) to near break-even profitability in FY2014F. EBITDA will increase slightly (to \$1.1 million) in FY2015F following further incremental uplift in the performance of Balance Cargo.

### **Administration and Operating Expenses**

Total administration and operating expenses will remain in line with previous years for FY2014F, decreasing slightly due to small improvements within the coldstore operations. Total costs increase by \$1.1 million in FY2015F due to administration and operating costs associated with the commencement of trading for the Auckland coldstore. The Auckland coldstore administration and operating expenses represent approximately 40% of a full year of costs.

Food Ingredients

Key Operational Metrics

		FY2012	FY2013	FY2014F	FY2015F
<b>Meateor</b>					
Sales volumes	Tonnes	16,161	15,345	15,843	15,080

Profitability

\$000	FY2012	FY2013	FY2014F	FY2015F
Meateor Revenue	33,601	33,113	35,489	34,794
Meateor Cost of Sales	(27,257)	(27,178)	(30,122)	(29,558)
<b>Gross Profit</b>	<b>6,344</b>	<b>5,935</b>	<b>5,367</b>	<b>5,236</b>
Gross Profit Margin	19%	18%	15%	15%
Administration, operating expenses, and other gains and losses	(2,343)	(2,305)	(2,186)	(2,186)
<b>EBITDA (excluding Scales' share of Profruit)</b>	<b>4,001</b>	<b>3,630</b>	<b>3,181</b>	<b>3,050</b>
Share of Profruit Net Profit	1,467	1,077	728	1,070
<b>Food Ingredients EBITDA</b>	<b>5,468</b>	<b>4,707</b>	<b>3,909</b>	<b>4,120</b>
Depreciation & amortisation	(609)	(643)	(599)	(599)
<b>Food Ingredients EBIT</b>	<b>4,859</b>	<b>4,064</b>	<b>3,310</b>	<b>3,521</b>
Capital employed	15,961	13,799	14,228	13,962
Return on capital employed	30%	29%	23%	25%

Meateor

Total volumes increase from 15,345 tonnes in FY2013 to 15,843 tonnes in FY2014F (increase of 3%). This increase is due to the sale of surplus inventories carried at the end of FY2013. Volumes return to a sustainable level of 15,080 tonnes in FY2015F (5% reduction).

The cost of raw materials increases significantly between FY2013 and FY2014F driven by reduced availability of supply. Whilst some of the increased cost is passed on to customers through increased selling prices, overall gross margins contract in FY2014F and remain consistent in FY2015F.

Overall, EBITDA decreases between FY2013 and FY2014F by 12%, and a further 4% to FY2015F as volumes reduce to sustainable levels.

Profruit

Ongoing weakness in apple juice concentrate prices, coupled with slightly reduced volumes from Mr Apple, reduces Profruit's profits by 32% from FY2013 to FY2014F.

During FY2015F an improvement in apple juice concentrate prices returns Profruit to FY2013 levels of profit (a 47% increase on the FY2014F result). FY2013 profits were lower than that achieved in both FY2012 and FY2011.

Profruit's Net Profit is assumed to be remitted in full to its shareholders as a cash distribution.

Administration and Operating Expenses

Total administration and operating expenses are in line with previous years.

Head Office and Selacs Insurance

Administration and Operating Expenses

Administration and operating expenses for FY2014F are broadly consistent with those incurred in FY2013, increasing slightly to reflect a part year of incremental costs associated with running a listed company (including NZX listing fees, incremental costs of preparing and distributing annual and interim reports, and incremental directors' fees).

A subsequent increase in FY2015F reflects a full year of incremental listing costs.

Offer Costs

Advisory and other fees associated with the Offer, which will be paid by the Company, are expected to amount to \$2.9 million and are recorded as an expense prior to determining Net Profit for FY2014F. Brokerage payable on new equity issued (approximately \$1.1 million) is deducted from proceeds raised and is not recorded in the Prospective Consolidated Statement of Comprehensive Income.

Depreciation and Amortisation

Historical rates of depreciation will apply to the asset base adjusted for capital expenditure in

FY2014F and FY2015F. With capital expenditure exceeding depreciation and amortisation in both years, the total expense increases each year.

Share-based Payments to Employees

The cost of any share-based payments to employees are not material and no costs have been included in the PFI.

Working Capital Items

Trade receivables and accrued income assume normal receipt terms. Payables and accruals assume standard payment terms for operating expenses.

Inventories largely relate to unsold Meateor products within the Food Ingredients division. Other inventories comprise fuel stocks, pesticides and fungicides, or other materials necessary to carry out normal activities within each of the operating companies. Note that Mr Apple inventories of unsold fruit are nil at the end of the year. Apples are picked and sold within the same year and the vast majority of all sales are concluded by the end of September.

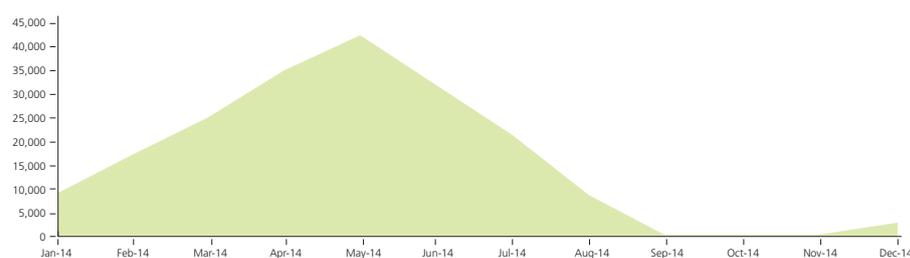
Mr Apple's operations have a large seasonal component to them. With costs incurred ahead of sales (for example pruning, picking, chilling, packing and cool storage as well as advance payments made to external growers) this gives rise to a temporary funding requirement for which we have secured working capital facilities

from our bankers for the benefit of Mr Apple, for a total of \$42 million.

A typical example of Mr Apple's funding requirements is shown in the table beside, which reflects Mr Apple's funding requirement expectations for FY2014F:

- initial requirements for cash start in December;
- cash requirements steadily increase through to May; then
- cash receipts from the sale of apples offshore allow the facility to be repaid generally by September.

### Mr Apple Cash Flow Requirements



### Capital Expenditure

\$000	FY2012	FY2013	FY2014F	FY2015F
<b>Operational capital expenditure</b>				
Horticulture	3,285	5,507	2,026	1,800
Storage & Logistics	1,468	2,242	1,840	1,840
Food Ingredients	329	66	297	297
Other	27	92	55	80
<b>Total operational capital expenditure</b>	<b>5,109</b>	<b>7,907</b>	<b>4,218</b>	<b>4,017</b>
<b>Growth capital expenditure</b>				
Horticulture	3,819	4,068	1,789	1,000
Storage & Logistics	2,116	1,032	4,487	5,631
Food Ingredients	3,500	–	–	–
<b>Total growth capital expenditure</b>	<b>9,435</b>	<b>5,100</b>	<b>6,276</b>	<b>6,631</b>
<b>Total capital expenditure</b>	<b>14,544</b>	<b>13,007</b>	<b>10,494</b>	<b>10,648</b>

Operational capital expenditure in the Horticulture division for FY2013 is higher than assessed long-term average requirements. In FY2013, operational capital expenditure was increased by a significant investment in orchard bins (almost \$3.2 million, compared with an average expenditure in the previous 6 years of \$0.7 million). The large bin expenditure has removed the need for bin spending in FY2014F and reduced bin expenditure to \$0.5 million in FY2015F. Annual long-run bin capital expenditure is assessed at \$0.8 million.

Total capital expenditure relates to additions spread across property, plant and equipment, biological assets and intangible assets.

Total operational capital expenditure (ordinary asset replacement and maintenance), in the normal course of business beyond the PFI

period, in respect of the existing asset base would be expected to be approximately \$6 million to \$7 million per annum which is higher than the \$4.2 million and \$4.0 million of total operational capital expenditure recorded in the PFI.

Significant growth capital expenditure items in FY2014F that are beyond 'ordinary asset replacement and maintenance' or long-run average expenditure levels considered necessary to 'stay-in business' include:

- \$1.5 million to redevelop 30 ha of orchard at Mr Apple;
- \$3.1 million for an electricity engine room upgrade at our largest coldstore in Timaru; and
- \$0.7 million in upgrades at Whakatu

Coldstores, including the finalisation of the latest warehouse management system upgrade (before rolling out across Polarcold).

Significant growth capital expenditure items in FY2015F include:

- \$1.0 million in redevelopment of approximately 15 ha of orchard;
- \$5.0 million to install all refrigeration equipment and racking at the Auckland coldstore. Note that this coldstore is being built by the landlord, but the specialist equipment necessary to convert it into a coldstore must be installed by Scales; and
- \$0.6 million to roll out the warehouse management system upgrade across Polarcold.

**Debt, Interest and Banking Covenants**

Appropriate debt funding is in place (i.e. term debt and working capital (or short-term debt) bank funding facilities) and will remain in place for FY2014F and FY2015F.

Proceeds from issuing new equity will be immediately applied against term debt facilities.

Interest expense will be at an average rate of 6.3% on all term borrowings for both FY2014F and FY2015F given interest rate hedges in place, and 5.0% and 6.0% for FY2014F and FY2015F, respectively on working capital and overdraft borrowings.

Further discussion on our financing arrangements, including the financial metrics used in calculating the above ratios, is contained in *Section 7.8: Description of Scales' Financing Arrangements* of the Prospectus.

<b>\$000</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014F</b>	<b>FY2015F</b>
Term debt borrowings (plus any current portion of term debt)	64,582	60,000	30,000	30,000
Working capital facility	4,500	–	2,500	–
Other loans or finance leases	919	–	–	–
Net Overdraft / (Cash) balances	689	(4,148)	2,216	(2,102)
<b>Net interest bearing debt</b>	<b>70,690</b>	<b>55,852</b>	<b>34,716</b>	<b>27,898</b>

Key banking covenants are as follows:

	<b>FY2014F</b>	<b>FY2015F</b>
<b>Interest Cover Ratio</b>		
Ratio	9.1x	12.1x
Covenant (must be greater than)	3.0x	3.0x
Headroom	203%	303%
<b>Senior Term Debt Leverage Ratio (times covered)</b>		
Ratio	0.8x	0.8x
Covenant (must be less than)	2.5x	2.5x
Headroom	213%	213%
<b>Tangible Net Worth (\$000s)</b>		
Tangible Net Worth	155,775	163,932
Covenant (must be greater than)	100,000	100,000
Headroom	56%	64%

## Related Party Transactions

Except as disclosed in the Prospectus, and in respect of the new Senior Executive LTI Scheme, all transactions with George H Investments, joint venture partners, associated companies, and key management personnel will continue to be conducted on an arm's length basis and at normal market prices and on commercial terms.

## Equity

Outside of the new Senior Executive LTI Scheme described in *Section 5.5: Board, Senior Management and Corporate Governance* of the Prospectus, there will be no new equity issued post the Allotment Date.

## Income Tax Expense

The income tax rate will be 28% on taxable profit based on the current corporate tax rate in New Zealand. Deferred Tax Liability will remain in line with the liability at 31 December 2013.

Tax will be paid when it falls due subject to accruals.

## Dividends

Dividends will be declared and paid based on the current dividend policy.

Total dividends in respect of FY2014F are expected to be \$13.0 million (9.4 to 9.6 cents per Share), to be paid following announcement of the FY2014 actual result in or about May 2015.

Total dividends in respect of FY2015F are expected to be \$14.5 million (10.5 to 10.7 cents per Share), to be paid following announcement of the FY2015 actual result in or about May 2016.

Dividends for FY2014F and FY2015F are expected to be fully imputed. At a tax rate of 28% the dividends declared grossed up for imputation credits are forecast to be \$18.0 million in FY2014F and \$20.2 million in FY2015F.

A dividend of \$13.7 million is being paid in July 2014 in respect of FY2013, prior to the listing of Scales.

## Demerger

In April 2014 we completed the demerger of our Investments operating division, which included property and investment assets, from the Group. This demerger was effective on 30 April 2014 with Scales shareholders at that time being issued with shares in George H Investments Limited (the holding company for the Investments group) and receiving a cash payment.

The net profit result and a gain on listed shares of the Investments operating division for the four months to 30 April 2014 (both the net profit result and the gain on listed shares is highlighted as being from discontinued activities) is included in FY2014F.

## Sensitivity Analysis

PFI is inherently subject to uncertainty and accordingly actual results are likely to vary from PFI and this variation could be material. You can find a full description of assumptions relating to the PFI for FY2014F and FY2015F under the heading "General Assumptions" and under the heading "Specific Assumptions" above, along with a description of risks in *Section 6: What are my Risks?* of this Investment Statement and the Prospectus.

The sensitivity analysis below is provided to assist you with assessing the potential effects of variations in certain key assumptions (defined as those most likely to materially affect results).

The sensitivity for each assumption is not intended to be indicative or predictive of the possible range of outcomes. Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions (i.e. when the assumption is sensitised, all other things remain equal). In reality, it is more likely that more than one assumption may move giving rise to compounding or offsetting effects. Furthermore the sensitivity modelled does not take into account that management action will be taken which may potentially mitigate effects. Therefore, care should be taken in interpreting the sensitivity analysis.

Sensitivities have been modelled to show the effect on forecast EBITDA for FY2015F only. The most significant sensitivities relate to the Horticulture division for which FY2014F volumes are now largely known and a significant portion of the fruit has already been sold.

### Export Yields per ha

Export yields per ha are forecast to increase from 2,478 TCEs per ha in FY2014F to 2,590 TCEs per ha in FY2015F. The increase is due to maturing orchard and a return to 'average' yields.

Should a significant weather event take place, such as a widespread and large hail event in spring or summer, export yields are likely to decrease. Conversely, favourable growing conditions such as those experienced for the FY2013 harvest, or improvements in technology or orchard development may increase export yields. The plus or minus 10% sensitivity range provides an illustration of the impact of higher, or lower, export yields. We consider that a 10% increase in yields from our own orchards can be accommodated within the capacity of our existing post-harvest facilities.

### Apple Prices in NZD per TCE

NZD equivalent apple prices may increase or decrease due to factors within Mr Apple's influence (such as the perceived quality of the Mr Apple brand) or outside of its control (such

as a disease or pest incursion, changes in the global supply of apples for international trade specifically from other Southern Hemisphere producers, changes in the tastes and preferences for individual varieties by market, or changes in foreign exchange rates on the uncovered portion of Mr Apple's foreign exchange exposure). The plus or minus 10% sensitivity range provides an illustration of the impact of higher, or lower, apple prices.

### Mr Apple Direct Costs

Mr Apple direct costs may increase or decrease due to changes in the costs of supplies, labour or transport. The plus or minus 5% sensitivity range provides an illustration of the impact of higher, or lower, total direct costs. Given the large number and varying nature of direct costs a reduced range is presented to allow for offsetting movements. Direct costs are defined to include labour, transport (land and sea), packaging and other consumables, and other direct costs.

Grower payments are indirectly affected through changes in transport and pool costs but have not been directly flexed.

### Utilisation of Coldstore Facilities

Utilisation of coldstore facilities may decrease where a large customer goes out of business, in a disease incursion event such as introduction of foot and mouth disease, or other reasons that reduce the amount of product that requires cold storage. With facilities sized to be close to full throughout the peak season, any material change in utilisation would likely be negative. The sensitivity range is based on no change through to a 10% reduction in volumes, average duration in store, or a combination of both to deliver the effect of reducing average utilisation by 10% (i.e. from 65% to 59%).

### Foreign Exchange Rates

Mr Apple, Meateor and Profruit are all subject to movement in foreign exchange rates on the sale of goods in foreign denominated currencies. Each businesses' net foreign exchange exposure is offset by sea freight costs which are typically in USD.

Foreign exchange rates are likely to vary. We hedge our foreign exchange exposure with short and long-term instruments, which can be up to 4 years in length. The plus or minus \$0.01 sensitivity range provides an illustration of the impact of higher, or lower, foreign exchange spot rates (applied to all currencies we trade in). Note that net exposure covered under existing foreign exchange instruments are therefore not affected by this sensitivity.

**Interest Rates**

We have both term and working capital facilities that are exposed to longer term shifts in the bank bill borrowing rate (BKBM). The plus or minus 1% change in BKBM sensitivity provides an illustration of the impact of higher, or lower, interest rates. We have interest rate swaps in place which lock in an interest rate for a period of time and only the uncovered borrowings are affected in this sensitivity. Our existing interest rate swaps will cover all of our \$30 million in term debt through until early 2018 limiting our exposure to only seasonal drawings under working capital facilities.

**Auckland Coldstore**

At the time of writing, the proposed Auckland coldstore project remains conditional on Scales and its landlord entering binding construction contracts within budget estimates by the end of October 2014. Whilst we have taken the view that the project remains more likely than not (and have therefore included it in the PFI), it may be cancelled or postponed as a result of any number of future events. The sensitivity below indicates the FY2015F EBITDA impact should the Auckland coldstore project be cancelled or postponed beyond FY2015F. Note that in addition to the EBITDA impact, growth capital expenditure of \$5 million would also no longer be incurred.

**External Grower Volumes**

Mr Apple packs, coolstores and markets apples on behalf of external growers in the Hawke's Bay and markets apples on behalf of external growers in Nelson. External grower volumes may increase or decrease if grower relationships are established or discontinued, if existing growers remove or plant more orchard, and based on ordinary variations in production due to the weather. Changes in volumes affect profit from Mr Apple's packhouse and coolstore operations (in the case of Hawke's Bay growers) and commissions earned on the sale of apples (in the case of all external growers). The plus or minus 10% sensitivity range provides an illustration of the impact of higher, or lower, total external grower volumes.

<b>Sensitivity</b>	<b>Increase / Decrease</b>	<b>FY2015F EBITDA Impact (\$ millions)</b>
Export yields per ha	+ / - 10%	3.3 / (3.3)
Apples prices (NZD per TCE)	+ / - 10%	6.6 / (6.6)
Mr Apple direct costs	+ / - 5%	3.7 / (3.7)
Utilisation of coldstore facilities	-10%	(2.4)
Foreign exchange rates	+ / - 1c change in FX rates	(1.0) / 1.0
Interest rates (impact on Net Profit)	+ / - 1% change in interest rates	(0.1) / 0.1
Auckland coldstore project	Cancelled or delayed beyond the PFI Period	0.3
External grower volumes	+ / - 10%	0.3 / (0.3)

BROKERS STAMP
ADVISOR'S CODE

**Broker Firm Offer Application Form**

**Scales Share Offer**

This Application Form is issued with the Investment Statement dated and prepared as at 27 June 2014 for the Offer of fully paid ordinary shares in Scales Corporation Limited. This Application Form represents an offer to purchase the Shares described in the Investment Statement and Prospectus. Any capitalised terms used in this Application Form but not defined have the same meaning as given to those terms in the Investment Statement. If you require assistance filling in this Application Form, call the Registrar on (09) 488 8777.

**A. Applicant Details**

Applications must be in the names of natural persons, companies or other legal entities, up to a maximum of three names per Application. Applications by trusts, funds, estates, partnerships or other unincorporated bodies must be made in the individual names of the persons who are the trustees, proprietors, partners or office bearers (as appropriate).

If, for your own purposes, you want to record that the Applicants hold their Shares on a particular account or for a particular purpose, you can record that in the "Company / Trust / Account Designation". If you are applying on behalf of your children, or some other person in respect of whom you have the required authority, you should complete the Application Form in their name.

Title and First name(s):	<input type="text"/>	Surname:	<input type="text"/>
Title and First name(s):	<input type="text"/>	Surname:	<input type="text"/>
Title and First name(s):	<input type="text"/>	Surname:	<input type="text"/>
Company / Trust / Account Designation (if applicable):	<input type="text"/>		
Postal address	Street address or PO Box:	Suburb/Town:	<input type="text"/>
	City:	Postcode:	Country:
	<input type="text"/>	<input type="text"/>	<input type="text"/>
Telephone	Mobile:	Daytime:	<input type="text"/>
	<input type="text"/>	<input type="text"/>	

**B. Application Payment**

Applications must be accompanied by payment. This Application Form and your payment must be sent to your broker so as to enable forwarding to the Registrar by 5.00pm (New Zealand time) on 22 July 2014. The minimum amount you can apply for is 1,000 Shares. Please complete the boxes below. The Final Price will be determined on or about 4 July 2014 and will be available by contacting an NZX Firm.

Number of Shares applied for:		Final Price:		Total Application amount:
<input type="text"/>	X	\$ <input type="text"/>	=	\$ <input type="text"/>

Choose ONE of the PAYMENT options below. Please tick the box next to your selected option.

- Option 1:** Please make a one-time direct debit from the bank account stated below.  
 By ticking this box and submitting this Application Form, I agree that the Registrar is authorised to withdraw from this account the full dollar amount of Shares applied for on the terms and conditions for one-time direct debit. The terms and conditions can be obtained by calling (09) 488 8777. Please confirm with your bank that payments can be direct debited from this account.  
 New Zealand dollar bank account details for one-time direct debit payment  
 Name of Bank:   
 Account Holder Name:   

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Bank	Branch	Account Number	Suffix
- Option 2:** Please find attached my payment by CHEQUE for the dollar amount of Shares applied for above made payable to "Scales Share Offer" and crossed "Not Transferable"
- Option 3:** Payment will be made by another method as arranged with your NZX Firm. You should carefully follow your NZX Firm's instructions as to payment or your Application may be rejected.

**C. Common Shareholder Number (CSN)**

A CSN is required to trade the Shares on the NZX Main Board once the Offer has closed and Shares have been allotted.

If you have other investments in shares or other securities which are quoted on a market operated by NZX and are registered under a CSN, please supply your CSN in the space provided below. A CSN is a nine digit number commencing with 31, 32 or 33. The registered holder name(s) for the CSN must match the name(s) on this Application Form. If the name(s) do not match, you will be allocated a new CSN under the name(s) provided on this Application Form. To check the registration details of your CSN, please refer to a recent securities transaction statement or remittance advice.

If you do not have a CSN, leave the space below blank and you will be allocated a CSN and Authorisation Code (FIN) when your Application is received.

If you have a CSN, please enter it here:

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### D. Future Dividend Payments

You may receive dividends from the Company in the future.

Choose ONE of the DIVIDEND PAYMENT options below. Please tick the box next to your selected option.

**Option 1:** Pay dividends directly into my bank account. The bank account provided must be with a New Zealand registered bank.

Please pay dividends directly into the bank account provided above in B. APPLICATION PAYMENT.

Please pay dividends directly into the bank account provided below:

New Zealand dollar bank account details for payment of dividends

Name of Bank:

Account Holder Name:

Bank

Branch

Account Number

Suffix

**Option 2:** Pay dividends directly into my Cash Management Account:

Name of NZX Firm where Cash Management Account is held:

Cash Management Account Number:

**Option 3:** Pay dividend by cheque

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### E. Electronic Communications

I agree to receive Shareholder Communications via email (optional):

Please enter your email address below if you wish to receive, where applicable, all shareholder communications (including notification of the availability of annual reports and interim reports, transaction statements, payment advices, meeting documents and any other company related information) by email.

Email:

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### F. IRD Number

Applicant's IRD number (only one IRD number is required in respect of a joint Application):

If you are applying on behalf of a minor (under the age of 18) or a dependent, use their IRD number. If the Applicant is a trust, company, partnership or other entity, use that entity's IRD number. Multiple Applications containing the same IRD number may not be accepted, or may be scaled on a differential basis, at the Issuer's discretion.

Resident withholding tax ("RWT") will be deducted from any dividends paid to the Shareholder (unless you provide a valid RWT exemption certificate).

- Exempt – please tick this box if you hold a resident withholding tax ("RWT") exemption certificate from IRD and attach a copy of your RWT exemption certificate.
- Please tick this box if you are a non-resident for New Zealand tax purposes under the Income Tax Act 2007. You will be treated as a New Zealand tax resident unless this box has been ticked.

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### G. Signature

The Application Form must be signed by, or on behalf of, each Applicant. If the Applicant is a company or other entity, it should be signed by a duly authorised person in accordance with any applicable constitution or governing document.

If the Applicant is a minor (under the age of 18) the parent or legal guardian should sign the Application Form on the Applicant's behalf.

If you elect to pay by one-time direct debit, you should ensure that the signatories are consistent with your bank authorities.

I/We hereby acknowledge that I/we have received the Scales Investment Statement dated 27 June 2014. I/we apply for Shares as set out below subject to the terms and conditions of the Investment Statement and Prospectus. By lodging this Application Form, I consent to the use of my personal information in accordance with the Privacy Policy set out in Section 10: How Do I Apply? of the Investment Statement.

Signature Of Applicant:

Signature Of Applicant:

Signature Of Applicant:

Date:

**Your Application must be returned to your NZX Firm that notified you of your allocation in time for your Application to be forwarded to the Registrar by 5.00pm on 22 July 2014.**

---

## H. Certificate Of Non-Revocation Of Power Of Attorney

(Complete this section if you are acting on behalf of the Applicant on this Application Form for whom you have power of attorney)

I,  (full name)

of  (place and country of residence)

(occupation), certify:

That by deed dated  (date of instrument creating the power of attorney)

of  (place of residence of person/body corporate which granted the power of attorney)

Appointed me  (his/her/its) attorney;

That I have executed the Application for Shares printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

That I have not received notice of any event revoking the power of attorney.

Date:

Signature of attorney:

Signed at:

---

## I. Certificate Of Non-Revocation Of Agent

(Complete this section if you are acting as agent on behalf of the Applicant on this Application Form)

I,  (full name)

of  (place and country of residence)

(occupation), certify:

That by the agency agreement dated  (date of instrument creating the agency)

of  (place of residence of person/body corporate which appointed you as agent)

Appointed me  (his/her/its) agent;

That I have executed the Application for Shares printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

That I have not received any notice or information of the revocation of my appointment as agent.

Date:

Signature of agent:

Signed at:

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### D. Future Dividend Payments

You may receive dividends from the Company in the future.

Choose ONE of the DIVIDEND PAYMENT options below. Please tick the box next to your selected option.

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Please pay dividends directly into the bank account provided below:

New Zealand dollar bank account details for payment of dividends

Name of Bank:

Account Holder Name:

Bank

Branch

Account Number

Suffix

**Option 2:** Pay dividends directly into my Cash Management Account:

Name of NZX Firm where Cash Management Account is held:

Cash Management Account Number:

**Option 3:** Pay dividend by cheque

---

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I agree to receive Shareholder Communications via email (optional):

Please enter your email address below if you wish to receive, where applicable, all shareholder communications (including notification of the availability of annual reports and interim reports, transaction statements, payment advices, meeting documents and any other company related information) by email.

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- Exempt – please tick this box if you hold a resident withholding tax ("RWT") exemption certificate from IRD and attach a copy of your RWT exemption certificate.
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(occupation), certify:

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of  (place of residence of person/body corporate which granted the power of attorney)

Appointed me  (his/her/its) attorney;

That I have executed the Application for Shares printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

That I have not received notice of any event revoking the power of attorney.

Date:

Signature of attorney:

Signed at:

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of  (place of residence of person/body corporate which appointed you as agent)

Appointed me  (his/her/its) agent;

That I have executed the Application for Shares printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

That I have not received any notice or information of the revocation of my appointment as agent.

Date:

Signature of agent:

Signed at:

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# Directory

## The Company

### **Scales Corporation Limited**

52 Cashel Street  
Christchurch Central  
Christchurch 8013

## Offeror

### **SCL Limited**

52 Cashel Street  
Christchurch Central  
Christchurch 8013

## Promoter

### **Direct Capital IV GP Limited**

Level 6, 2 Kitchener Street  
Auckland 1010

## Legal Advisers To The Issuers

### **Chapman Tripp**

Level 35, ANZ Centre  
23–29 Albert Street  
Auckland 1010

## Auditor And Investigating Accountant

### **Deloitte**

50 Hazeldean Road  
Christchurch 8024

## Registrar

### **Computershare Investor Services Limited**

Level 2, 159 Hurstmere Road  
Takapuna  
Auckland 0622

## Joint Lead Managers

### **First NZ Capital Securities Limited**

Level 39, ANZ Centre  
23–29 Albert Street  
Auckland 1010

### **Deutsche Craigs Limited**

Level 36, Vero Centre  
48 Shortland Street  
Auckland 1140

## Financial Adviser To The Company

### **Maher & Associates**

Level 10, 17 Albert Street  
Auckland 1010