

# Interim Report

30 June 2014

# Table of Contents

Directors' Report	2
Auditor's Review Report	5
Financial Statements	6
Directory	21

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**Growing,  
processing,  
chilling and  
exporting to  
the world.**



# Directors' Report

The board is pleased to report a net profit after tax of \$20.6 million for the six months ended 30 June 2014. This result is in line with expectations. We are also on track to achieve our full year 2014 forecast.

The successful Initial Public Offer and listing on the NZX on 25 July 2014 was a milestone for the company. The board welcomes new shareholders to the company and looks forward to them participating in the continuation of Scales' strong track record of financial performance.

## Financial Performance

Highlights of the interim result include revenue increases in all divisions with Mr Apple export volumes 7.0 percent above PFI forecast. Total group revenue was \$150.2 million, up 3.4 per cent on 2013.

Net profit before tax, excluding discontinued operations, was \$28.9 million compared to \$33.7 million in 2013. The reduction in interim profit reflected costs associated with the recent NZX listing together with lower apple prices, which were expected.

The full year 2014 forecast net profit before tax is \$22.5 million. This is lower than the interim result due to the seasonal nature of Scales' businesses and also due to apple inventory valuation principles. The combined effect of these factors means that first half profit before tax tends to be higher than the full year results.

Improved operating cash flows has enabled forecast net working capital facility debt to be halved to \$11.6 million. As a consequence Average Prospective Net Debt is now forecast to be \$38.2 million, an improvement on the Prospectus forecast.

On the balance sheet, non-current assets have been reduced due to the demerger of the investments division during the half year while trade and other receivables were around \$10 million lower because of improved customer collections.

## Divisions

The horticulture division's Mr Apple business lifted export volumes by 7.0 per cent compared to forecast, a pleasing result considering the record crop in 2013.

The anticipated softening of European apple prices, which has eventuated in the latter part of the current season, is expected to be offset by higher early season prices achieved and the increased volumes.

The storage and logistics division increased revenues by \$2 million to nearly \$61 million while food ingredients division revenues were also up \$2 million to the end of June 2014.

## Outlook

The outlook for Scales' diverse and growing agribusiness is positive.

The near-term performance is underlined by a number of developments.

There is continued development of Mr Apple's presence in Asia and other near markets, aided by the fact that premium variety apple plantings are expected to yield increased volumes for 2015. Also, together with a group of other primary sector New Zealand exporters, the establishment of ServeCo, a collaborative venture based in Shanghai is designed to assist the partners' trade into China.

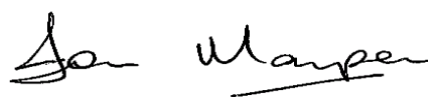
The board is also investing in developing the Mr Apple brand as part of the drive to extract additional premiums from the market associated with the quality, consistency and reliability of our apple offering. It is the company's ongoing objective to have the Mr Apple brand widely recognised as the preferred buying option for apple customers worldwide.

The proposed cold store expansion into the Auckland market is a significant venture. The Polarcold facility, to be established in Ports of Auckland's intermodal freight hub in Wiri, will increase total cold store capacity by 16 per cent. Fonterra is taking 50 per cent of the space under a long-term agreement.

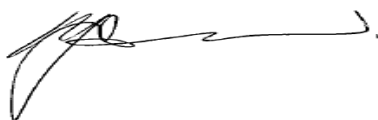
Construction of the 8,700 square metre facility is expected to begin later this year and become operational in the third quarter of 2015.

The board continues to target longer term growth, both organic and via acquisition. We are investing in our existing businesses, and also constantly evaluating bolt-on opportunities. As a result of the capital raising in the IPO we are in a very strong position to make investments that meet our stringent criteria.

Lastly, the board would like to acknowledge the contribution of staff to Scales' success. We continue to be appreciative and impressed by the performance of staff across all divisions.



JI Mayson  
Chairman



AJ Borland  
Managing Director









## Review Report To The Shareholders Of Scales Corporation Limited

We have reviewed the condensed consolidated interim financial statements on pages 6 to 20. The condensed consolidated interim financial statements provide information about the past financial performance of Scales Corporation Limited and its subsidiaries ("the Group") and its financial position as at 30 June 2014. This information is stated in accordance with the accounting policies set out on page 10.

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

### **Board of Directors' Responsibilities**

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the condensed consolidated interim financial statements which present fairly the financial position of the Group as at 30 June 2014 and the results of operations and cash flows for the six months ended on that date.

### **Independent Accountant's Responsibilities**

We are responsible for reviewing the condensed consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the condensed consolidated interim financial statements do not present fairly the matters to which they relate.

### **Basis of Opinion**

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the condensed consolidated interim financial statements of Scales Corporation Limited for the six months ended 30 June 2014 in accordance with the Review Engagement Standards issued by the External Reporting Board.

Other than in our capacity as auditors under the Companies Act 1993 our firm provides taxation advice and was appointed as the investigating accountant and tax due diligence provider in respect of the public offer. Other than the audit and these engagements we have no relationship with or interests in Scales Corporation Limited or its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

### **Opinion**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements on pages 6 to 20 do not present fairly the financial position of the Group as at 30 June 2014 and the results of operations and cash flows for the six months ended on that date in accordance with NZ IAS 34: *Interim Financial Reporting* and IAS 34: *Interim Financial Reporting*.

Our review was completed on 28 August 2014 and our review opinion is expressed as at that date.

Chartered Accountants  
Christchurch, New Zealand

## Consolidated Statement Of Comprehensive Income For The Six Months Ended 30 June 2014

		Unaudited		Audited
		Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000	Year ended 31 December 2013 \$'000
<b>Continuing operations:</b>	<b>Note</b>			
Revenue		150,242	145,348	272,216
Cost of sales		(92,479)	(85,439)	(190,644)
		<b>57,763</b>	<b>59,909</b>	<b>81,572</b>
Share of profits of associate company and joint venture accounted for using the equity method	3	596	716	1,567
Other income		920	143	578
Other losses		(324)	(604)	(712)
Administration and operating expenses		(21,274)	(19,241)	(40,249)
Offer costs		(2,076)	–	–
<b>EBITDA</b>		<b>35,605</b>	<b>40,923</b>	<b>42,756</b>
Depreciation and amortisation		(4,726)	(4,301)	(8,839)
<b>EBIT</b>		<b>30,879</b>	<b>36,622</b>	<b>33,917</b>
Interest		(2,006)	(2,905)	(7,214)
<b>Profit Before Income Tax Expense</b>		<b>28,873</b>	<b>33,717</b>	<b>26,703</b>
Income tax expense		8,536	9,294	7,144
<b>Profit After Income Tax Expense</b>		<b>20,337</b>	<b>24,423</b>	<b>19,559</b>
Discontinued operations	5	299	1,979	879
<b>Profit For The Period</b>		<b>20,636</b>	<b>26,402</b>	<b>20,438</b>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss – continuing operations:				
Revaluation of land and buildings		–	–	8,561
Income tax relating to land and buildings		–	–	(1,702)
		–	–	<b>6,859</b>
Items that may be reclassified subsequently to profit or loss – continuing operations:				
Gain (Loss) on cash flow hedges		6,008	(4,975)	1,218
Income tax relating to cash flow hedges		(1,682)	1,393	(341)
		<b>4,326</b>	<b>(3,582)</b>	<b>877</b>
Items that will not be reclassified to profit or loss – discontinued operations:				
Gain (Loss) on shares in listed company		1,206	–	1,206
Revaluation of land and buildings		–	–	(1,463)
Income tax relating to land and buildings		–	–	129
		<b>1,206</b>	<b>–</b>	<b>(128)</b>
<b>Other Comprehensive Income (Loss) For The Period</b>		<b>5,532</b>	<b>(3,582)</b>	<b>7,608</b>
<b>Total Comprehensive Income For The Period</b>		<b>26,168</b>	<b>22,820</b>	<b>28,046</b>
EARNINGS PER SHARE:				
Basic and diluted earnings per share (cents) – continuing operations		17.0	20.2	16.1
Basic and diluted earnings per share (cents) – discontinued operations		0.3	1.6	0.7
Basic and diluted earnings per share (cents) – total		17.3	21.8	16.8

The notes to the financial statements on pages 10 to 20 form part of and should be read in conjunction with this statement.



## Consolidated Statement Of Changes In Equity For The Six Months Ended 30 June 2014

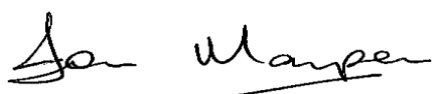
Unaudited	NOTE	Share Capital \$'000	Properties Revaluation Reserve \$'000	Hedging Reserve \$'000	Retained Earnings \$'000	Total \$'000
Six months ended 30 June 2014:						
Balance at 1 January 2014		61,957	27,408	423	85,525	175,313
Profit for the period – continuing operations		–	–	–	20,337	20,337
Profit for the period – discontinued operations		–	–	–	299	299
Other comprehensive income for the period – continuing operations		–	–	4,326	–	4,326
Other comprehensive income for the period – discontinued operations		–	–	–	1,206	1,206
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>4,326</b>	<b>21,842</b>	<b>26,168</b>
Transfers		–	(1,800)	–	1,800	–
Demerger of George H Investments Limited group	5	–	(319)	–	(61,388)	(61,707)
<b>Balance at 30 June 2014</b>		<b>61,957</b>	<b>25,289</b>	<b>4,749</b>	<b>47,779</b>	<b>139,774</b>
Six months ended 30 June 2013:						
Balance at 1 January 2013		63,656	22,849	(454)	71,022	157,073
Profit for the period – continuing operations		–	–	–	24,423	24,423
Profit for the period – discontinued operations		–	–	–	1,979	1,979
Other comprehensive loss for the period – continuing operations		–	–	(3,582)	–	(3,582)
<b>Total comprehensive income for the period</b>		<b>–</b>	<b>–</b>	<b>(3,582)</b>	<b>26,402</b>	<b>22,820</b>
Dividends paid		–	–	–	(8,107)	(8,107)
Issue of share capital		600	–	–	–	600
<b>Balance at 30 June 2013</b>		<b>64,256</b>	<b>22,849</b>	<b>(4,036)</b>	<b>89,317</b>	<b>172,386</b>
<b>Audited</b>						
Year ended 31 December 2013:						
Balance at 1 January 2013		63,656	22,849	(454)	71,022	157,073
Profit for the year – continuing operations		–	–	–	19,559	19,559
Profit for the year – discontinued operations		–	–	–	879	879
Other comprehensive income for the year – continuing operations		–	6,859	877	–	7,736
Other comprehensive (loss) income for the year – discontinued operations		–	(1,334)	–	1,206	(128)
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>5,525</b>	<b>877</b>	<b>21,644</b>	<b>28,046</b>
Transfers		–	(966)	–	966	–
Dividends paid		–	–	–	(8,107)	(8,107)
Issue of share capital		900	–	–	–	900
Shares repurchased and cancelled		(2,599)	–	–	–	(2,599)
<b>Balance at 31 December 2013</b>		<b>61,957</b>	<b>27,408</b>	<b>423</b>	<b>85,525</b>	<b>175,313</b>

The notes to the financial statements on pages 10 to 20 form part of and should be read in conjunction with this statement.

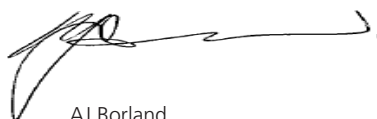
## Consolidated Statement Of Financial Position As At 30 June 2014

	NOTE	Unaudited		Audited
		30 June 2014 \$'000	30 June 2013 \$'000	31 December 2013 \$'000
<b>Equity</b>				
Share capital		61,957	64,256	61,957
Properties revaluation reserve		25,289	22,849	27,408
Hedging reserve		4,749	(4,036)	423
Retained earnings		47,779	89,317	85,525
<b>Total Equity</b>		<b>139,774</b>	<b>172,386</b>	<b>175,313</b>
Represented By:				
<b>Current Assets</b>				
Cash and bank balances		10,885	2,137	4,461
Trade and other receivables		31,417	41,689	12,911
Other financial assets		3,703	397	2,058
Inventories		56,740	67,358	11,096
Property held for sale		–	–	2,125
Other current assets		1,161	868	2,216
<b>Total Current Assets</b>		<b>103,906</b>	<b>112,449</b>	<b>34,867</b>
<b>Non-Current Assets</b>				
Investments accounted for using the equity method		5,148	5,191	5,052
Other financial assets		5,668	22,540	24,457
Property, plant and equipment		143,757	148,600	152,104
Investment property		–	25,858	22,334
Biological assets		16,822	14,988	26,853
Goodwill		5,319	5,319	5,319
Other intangible assets		1,296	1,198	1,672
<b>Total Non-Current Assets</b>		<b>178,010</b>	<b>223,694</b>	<b>237,791</b>
<b>Total Assets</b>		<b>281,916</b>	<b>336,143</b>	<b>272,658</b>
<b>Current Liabilities</b>				
Trade and other payables		30,908	30,047	15,523
Borrowings		22,500	42,975	–
Current tax liabilities		13,676	10,898	2,100
Other financial liabilities		90	2,699	599
<b>Total Current Liabilities</b>		<b>67,174</b>	<b>86,619</b>	<b>18,222</b>
<b>Non-Current Liabilities</b>				
Borrowings		60,000	62,170	60,000
Deferred tax liabilities		14,797	10,903	17,458
Other financial liabilities		171	4,065	1,665
<b>Total Non-Current Liabilities</b>		<b>74,968</b>	<b>77,138</b>	<b>79,123</b>
<b>Total Liabilities</b>		<b>142,142</b>	<b>163,757</b>	<b>97,345</b>
<b>Net Assets</b>		<b>139,774</b>	<b>172,386</b>	<b>175,313</b>

For and on behalf of the Board, who authorised the issue of these interim financial statements on 28 August 2014.



JI Mayson  
Chairman



AJ Borland  
Managing Director

The notes to the financial statements on pages 10 to 20 form part of and should be read in conjunction with this statement.



## Consolidated Statement Of Cash Flows For The Six Months Ended 30 June 2014

	NOTE	Unaudited		Audited
		Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000	Year ended 31 December 2013 \$'000
<b>Cash Flows From Operating Activities</b>				
Cash was provided from:				
Receipts from customers		132,175	115,260	272,347
Dividends received from equity accounted companies		1,000	1,000	2,020
Interest received		256	222	532
		<b>133,431</b>	<b>116,482</b>	<b>274,899</b>
Cash was disbursed to:				
Payments to suppliers and employees		133,018	130,160	228,721
Interest paid		2,262	3,127	7,214
Income tax paid		119	1,452	5,050
		<b>135,399</b>	<b>134,739</b>	<b>240,985</b>
<b>Net Cash (Used In) Generated By Operating Activities</b>	9	<b>(1,968)</b>	<b>(18,257)</b>	<b>33,914</b>
<b>Cash Flows From Investing Activities</b>				
Cash was provided from:				
Employee advances repaid		779	–	–
Sale of investment properties		–	3,560	8,244
Sale of NZ Government Stock		–	503	1,021
Sale of property, plant and equipment and other intangible assets		2,552	91	3,470
		<b>3,331</b>	<b>4,154</b>	<b>12,735</b>
Cash was applied to:				
Advances to other entities		321	–	1,059
Cash transferred with demerged companies		313	–	–
Investment in biological assets		2,284	1,540	1,074
Advance to joint venture		500	–	–
Purchase of associate company		–	1,782	1,782
Purchase of investment properties		–	31	3,745
Purchase of NZ Government Stock		–	532	520
Purchase of other intangible assets		–	148	1,016
Purchase of shares in unlisted companies		3	14	23
Purchase of property plant and equipment		5,458	6,876	12,387
		<b>8,879</b>	<b>10,923</b>	<b>21,606</b>
<b>Net Cash (Used In) Provided By Investing Activities</b>		<b>(5,548)</b>	<b>(6,769)</b>	<b>(8,871)</b>
<b>Cash Flows From Financing Activities</b>				
Cash was provided from:				
Proceeds from borrowings		22,500	35,145	–
Shares issued		–	600	600
		<b>22,500</b>	<b>35,745</b>	<b>600</b>
Cash was applied to:				
Borrowings repaid		–	–	10,001
Distribution on demerger of George H Investments group		8,560	–	–
Dividends paid		–	8,107	8,107
Shares repurchased		–	–	2,599
		<b>8,560</b>	<b>8,107</b>	<b>20,707</b>
<b>Net Cash Provided By (Used In) Financing Activities</b>		<b>13,940</b>	<b>27,638</b>	<b>(20,107)</b>
NET INCREASE IN NET CASH		6,424	2,612	4,936
Cash and cash equivalents at the beginning of the period		4,461	(475)	(475)
<b>Cash And Cash Equivalents At The End Of The Period</b>		<b>10,885</b>	<b>2,137</b>	<b>4,461</b>
Represented by:				
Cash and bank balances		10,885	2,137	4,461
Bank overdraft		–	–	–
<b>Cash And Cash Equivalents At The End Of The Period</b>		<b>10,885</b>	<b>2,137</b>	<b>4,461</b>

The notes to the financial statements on pages 10 to 20 form part of and should be read in conjunction with this statement.

## Notes To The Consolidated Financial Statements For The Six Months Ended 30 June 2014

### 1. General Information

Scales Corporation Limited (the Company) is a profit-oriented company incorporated in New Zealand and registered under the Companies Act 1993. The Group consists of Scales Corporation Limited, its subsidiaries, associate company and joint venture. The principal activities of the Group are to provide logistics services, grow apples, export products, provide insurance services to companies within the Group and operate storage and processing facilities. The Company is an issuer in terms of the Financial Reporting Act 1993 and listed on the New Zealand Stock Exchange on 25 July 2014.

### 2. Preparation Of Interim Financial Statements

These interim financial statements have been prepared in accordance with the Financial Reporting Act 1993, New Zealand generally accepted accounting practice ("NZ GAAP"), NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting, and should be read in conjunction with the 2013 Annual Report which has been prepared in accordance with NZ IFRS and IFRS.

The Group has adopted the External Reporting Board A1 reporting framework and is a tier 1 entity under this framework.

The financial statements for the six months ended 30 June 2014 and 30 June 2013 are unaudited. The comparative information for the year ended 31 December 2013 is audited. The condensed interim consolidated statement of comprehensive income has been presented in the format the Directors intend to present in future annual financial statements of the Group and is similar to the prospective consolidated statements of comprehensive income set out in the prospectus dated 20 June 2014.

The presentation has been changed in the Statement of Comprehensive Income to reflect measures more commonly used in the industry to assess the operating performance of businesses and to compare them with other businesses including Gross Margin, EBIT and EBITDA. EBITDA provides a performance measure of the business that also allows an

assessment of the trading cash flows generated as it excludes the non-cash depreciation and amortisation expense. EBIT provides a measure that enables a comparison of returns with other businesses that is not distorted by different equity and debt funding strategies that may be adopted by different entities.

The accounting policies adopted are consistent with those applied in the 2013 Annual Report.

The Group has reviewed all standards and interpretations to existing standards in issue not yet adopted and, with the exception of NZ IFRS 15 Revenue which is effective for the financial year ending 31 December 2017 and amendments to NZ IAS 16 Property, Plant and Equipment and NZ IAS 41 Agriculture which are effective for the financial year ending 31 December 2016, does not expect these standards to have a material impact on the Group financial statements. NZ IFRS 15 Revenue was issued on 3 July 2014 and establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The amendments to NZ IAS 16 and NZ IAS 41 require biological assets that meet the definition of a bearer plant (apple trees) to be accounted for as property, plant and equipment in accordance with NZ IAS 16. The Group has not yet determined the potential impact of these standards.

The preparation of interim financial statements requires the Directors to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by the Directors in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applicable to the consolidated financial statements for the year ended 31 December 2013.



### 3. Investment In Associate And Joint Venture

		Country of Incorporation	Holding	Contribution to net profit		
				All reporting dates	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000
Associate						
Fern Ridge Produce Limited	New Zealand	50%	155	245	490	
Joint Venture						
Profruit (2006) Limited	New Zealand	50%	441	471	1,077	

### 4. Segment Information

The operating segments have been determined based on the reports reviewed by the chief operating decision-maker, being the Managing Director.

The segment information has been determined on the same basis as it was set out in the prospectus for the initial public offer as this is the basis on which the Group will report in future reporting periods. As the Investments segment was demerged on 30 April 2014 the net profit for that segment is included in the consolidated statement of comprehensive income as profit after tax from discontinued operations. The revenue and profit before income tax is therefore not included in the segment information set out below.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

No single external customer's revenue accounts for 10% or more of the Group's revenue.

All non-current assets are located in New Zealand.

#### *Operating segments:*

The Group comprises the following main operating segments:

**Food Ingredients:** processing and marketing of food ingredients such as pet food ingredients and juice. Meateor Foods Limited, Meateor Foods Australia Pty Limited and Profruit (2006) Limited.

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

**Storage & Logistics:** Liqueo Bulk Storage Limited, Polarcold Stores Limited, Scales Logistics Limited and Whakatu Coldstores Limited.

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

**Investments:** investment properties and listed shares. George H Investments Limited, Scales Property Development Limited, Silverstream Industrial Park Limited, Tiger Ventures NZ Limited and Whakatu Property Management Limited.

## Notes To The Consolidated Financial Statements For The Six Months Ended 30 June 2014

### 4. Segment Information (continued)

	Food Ingredients \$'000	Horticulture \$'000
<b>Six months ended 30 June 2014</b>		
Total segment revenue	18,769	90,117
Inter-segment revenue	–	–
<b>Revenue from external customers</b>	<b>18,769</b>	<b>90,117</b>
Segment profit (loss) before income tax and before discontinued operations	2,773	23,001
Segment assets	24,554	164,397
Segment liabilities	14,378	84,724
<b>Six months ended 30 June 2013</b>		
Total segment revenue	16,745	88,448
Inter-segment revenue	–	–
<b>Revenue from external customers</b>	<b>16,745</b>	<b>88,448</b>
Segment profit (loss) before income tax and before discontinued operations	2,075	25,907
Segment assets	25,305	166,222
Segment liabilities	3,796	89,587
<b>Year ended 31 December 2013</b>		
Total segment revenue	33,113	174,171
Inter-segment revenue	–	–
<b>Revenue from external customers</b>	<b>33,113</b>	<b>174,171</b>
Segment profit (loss) before income tax and before discontinued operations	4,064	20,769
Segment assets	27,319	105,924
Segment liabilities	3,991	26,936





Storage & Logistics \$'000	Other \$'000	Investments \$'000	Eliminations \$'000	Total \$'000
60,994	1,567	–	(21,205)	150,242
(19,931)	(1,274)	–	21,205	–
<b>41,063</b>	<b>293</b>	<b>–</b>	<b>–</b>	<b>150,242</b>
7,889	(4,790)	–	–	28,873
123,148	102,452	–	(132,635)	281,916
78,946	96,729	–	(132,635)	142,142
58,836	1,537	–	(20,218)	145,348
(18,944)	(1,274)	–	20,218	–
<b>39,892</b>	<b>263</b>	<b>–</b>	<b>–</b>	<b>145,348</b>
8,547	(2,812)	–	–	33,717
108,734	129,786	49,701	(143,605)	336,143
50,478	148,816	14,686	(143,605)	163,758
91,662	3,081	–	(29,811)	272,216
(26,886)	(2,925)	–	29,811	–
<b>64,776</b>	<b>156</b>	<b>–</b>	<b>–</b>	<b>272,216</b>
9,494	(7,624)	–	–	26,703
104,806	64,258	53,958	(83,607)	272,658
46,200	71,295	32,530	(83,607)	97,345



## Notes To The Consolidated Financial Statements For The Six Months Ended 30 June 2014

### 5. Discontinued Operations

On 30 April 2014 the demerger of the Investments operating division was effected, with Scales shareholders at that time receiving shares in George H Investments Limited, the holding company for the Investments group. The other companies in the Investments group are Scales Property Development Limited, Silverstream Industrial Park Limited, Tiger Ventures NZ Limited and Whakatu Property Management Limited.

The results and cash flows of the discontinued operations are set out below:

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000	Year ended 31 December 2013 \$'000
Revenue	870	1,710	2,197
Cost of sales	(189)	(320)	(423)
<b>Gross profit</b>	<b>681</b>	<b>1,390</b>	<b>1,774</b>
Other income	–	1,360	2,291
Other losses	–	–	(658)
Depreciation and amortisation	(99)	(185)	(316)
Operating expenses	(167)	(299)	(1,728)
<b>Profit before tax</b>	<b>415</b>	<b>2,266</b>	<b>1,363</b>
Taxation	116	287	484
<b>Profit after tax</b>	<b>299</b>	<b>1,979</b>	<b>879</b>
Other comprehensive income:			
Gain on shares in listed company	1,206	–	1,206
Revaluation of land and buildings	–	–	(1,463)
Income tax relating to Other Comprehensive Income of Discontinued Operations	–	–	129
<b>Total comprehensive income from discontinued operations</b>	<b>1,505</b>	<b>1,979</b>	<b>751</b>
Cash flows from discontinued operations:			
Net cash flows from operating activities	685		
Net cash flows from investing activities	(2,997)		
Net cash flows from financing activities	–		
<b>Net cash flows</b>	<b>(2,312)</b>		
The demerger of the Investments operating division affected the Statement of Financial Position as follows:			
Cash and bank balances	(313)		
Cash distributed on demerger	(8,560)		
Trade and other receivables	(430)		
Property held for sale	(2,125)		
Other current assets	(83)		
Shares in listed company	(22,311)		
Property, plant and equipment	(6,989)		
Investment property	(22,335)		
Other intangible assets	(2)		
Trade and other payables	142		
Current tax liabilities	531		
Deferred tax liabilities	769		
<b>Net Assets Disposed</b>	<b>(61,706)</b>		
Distribution of Group reserves	61,706		

## 6. Taxation

### **Current Tax:**

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated at the estimated average annual effective income tax rate applied to the pre-tax income of the interim period and adjusted for any estimated permanent and temporary differences.

### **Deferred Tax:**

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of the assets and liabilities, using the estimated average annual effective tax rate for the interim periods presented.

## 7. Dividends

During the six months ended 30 June 2014, the Group paid dividends of \$nil (six months ended 30 June 2013 and year ended 31 December 2013 \$8.107 million).

## 8. Property, Plant & Equipment

	<b>Six months ended 30 June 2014 \$'000</b>	<b>Six months ended 30 June 2013 \$'000</b>	<b>Year ended 31 December 2013 \$'000</b>
Cost of assets acquired	5,458	6,876	12,387
Net carrying value of asset disposals	2,365	79	2,848
Profit on asset disposals	186	12	604

Asset disposals exclude the assets included in the demerger of the Investments operating division (refer to note 5 above).



## Notes To The Consolidated Financial Statements For The Six Months Ended 30 June 2014

### 9. Net Cash Generated By Operating Activities

Reconciliation of profit for the period to net cash generated by operating activities:

	Six months ended 30 June 2014 \$'000	Six months ended 30 June 2013 \$'000	Year ended 31 December 2013 \$'000
Profit for the period	20,636	26,402	20,438
Non-cash items:			
Change in fair value of biological assets	–	–	(16)
Change in fair value of derivative financial instruments	(410)	472	615
Change in fair value of investment property	–	–	(931)
Deferred tax	(3,573)	(2,771)	477
Depreciation and amortisation	4,825	4,486	9,155
Impairment of non-current assets	–	–	2,043
Share of equity accounted results	(596)	(716)	(1,567)
Dividends received from equity accounted companies	1,000	1,000	1,990
Working capital items included in demerged operations	157	–	–
Other	–	–	15
Items classified as investing and financing activities:			
Purchase of shares in associate company	–	1,782	1,782
(Gain) on disposal of investment property	–	(1,360)	–
(Gain) on disposal of property, plant and equipment	(186)	(12)	(604)
Changes in net assets and liabilities:			
Trade and other receivables	(18,507)	(31,798)	(3,020)
Inventories	(45,644)	(56,283)	(21)
Other current assets	1,055	1,574	227
Biological assets - unharvested crop	12,315	12,431	116
Trade and other payables	15,384	15,636	1,113
Current tax	11,576	10,900	2,102
<b>NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES</b>	<b>(1,968)</b>	<b>(18,257)</b>	<b>33,914</b>

### 10. Capital Commitments

Commitments entered into as at reporting date were	588	858	318
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### 11. Contingent Liabilities

Guarantee of joint venture bank loan facility	610	627	564
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## 12. Financial Instruments And Fair Value Disclosures

### **Foreign currency:**

The Group is exposed to currency risk as a result of normal trading transactions denominated in foreign currencies. Currency risk is managed by the natural hedge of foreign currency receivables and payables and the use of foreign currency derivative financial instruments. The foreign currency derivatives are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions.

### **Interest rates:**

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

### **Fair values:**

The carrying amounts of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

### **Fair value measurement hierarchy:**

The following table presents the Group's financial assets and liabilities that are measured at fair value at the reporting date.

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

The forward foreign currency exchange contracts are valued using discounted cash flow techniques. Future cash flows are estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The net settled interest rate swaps and forward rate agreements are valued using discounted cash flow techniques. Future cash flows are estimated based on forward interest rate curves discounted at a rate that reflects the credit risk of various counterparties.

## Notes To The Consolidated Financial Statements For The Six Months Ended 30 June 2014

### 12. Financial Instruments And Fair Value Disclosures (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>At 30 June 2014</b>				
<b>Assets</b>				
Forward foreign currency exchange contracts	–	6,271	–	6,271
Net settled interest rate swaps and forward rate agreements	–	818	–	818
	<b>–</b>	<b>7,089</b>	<b>–</b>	<b>7,089</b>
<b>Liabilities</b>				
Forward foreign currency exchange contracts	–	79	–	79
Net settled interest rate swaps and forward rate agreements	–	182	–	182
	<b>–</b>	<b>261</b>	<b>–</b>	<b>261</b>
<b>At 30 June 2013</b>				
<b>Assets</b>				
Forward foreign currency exchange contracts	–	643	–	643
Net settled interest rate swaps and forward rate agreements	–	494	–	494
New Zealand Government stock	503	–	–	503
Shares in listed companies	19,899	–	–	19,899
	<b>20,402</b>	<b>1,137</b>	<b>–</b>	<b>21,539</b>
<b>Liabilities</b>				
Forward foreign currency exchange contracts	–	4,418	–	4,418
Net settled interest rate swaps and forward rate agreements	–	2,347	–	2,347
	<b>–</b>	<b>6,765</b>	<b>–</b>	<b>6,765</b>
<b>At 31 December 2013</b>				
<b>Assets</b>				
Forward foreign currency exchange contracts	–	1,517	–	1,517
Net settled interest rate swaps and forward rate agreements	–	1,157	–	1,157
Shares in listed companies	21,105	–	–	21,105
	<b>21,105</b>	<b>2,674</b>	<b>–</b>	<b>23,779</b>
<b>Liabilities</b>				
Forward foreign currency exchange contracts	–	1,978	–	1,978
Net settled interest rate swaps and forward rate agreements	–	286	–	286
	<b>–</b>	<b>2,264</b>	<b>–</b>	<b>2,264</b>



### 13. Related Party Disclosures

At 30 June 2014 the holding company was Direct Capital Investments Limited which held 84.2105% of the ordinary shares.

#### (a) Transactions with Related Parties

Mr Foote is a director and shareholder in New Zealand Cold Storage Limited.

Mr Harris is a director and shareholder in Hellers Limited

Mr Mayson is a director of Ziwipeak Limited

	30 June 2014 \$'000	30 June 2013 \$'000	31 December 2013 \$'000
Rent paid to New Zealand Cold Storage Limited	178	145	293
Cold storage and related revenue received from Hellers Limited	467	298	668
Processing, cold storage and logistics revenue received from Ziwipeak Limited	483	342	694
Purchases from Ziwipeak Limited	432	125	125
Trade receivables at balance date	197	94	71
Trade payables at balance date	156	–	–

#### (b) Transactions between the Company and Subsidiaries

Interest income	518	694	945
Interest expense	–	–	164
Insurance premium expense	43	43	86
Loans from subsidiary companies	27,286	21,617	23,210
Loans to subsidiary companies	99,985	110,757	58,386

#### (c) Key Management Personnel Remuneration

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

Short-term employee benefits	1,223	1,037	1,962
Post-employment benefits	47	56	85
	<b>1,270</b>	<b>1,093</b>	<b>2,047</b>

#### (d) Transactions with Equity Accounted Entities

Revenue from sale of goods	4,004	1,318	1,614
Revenue from services	1,669	545	1,675
Interest income	–	–	7
Dividends received	1,000	1,000	1,990
Trade receivables at balance date	–	119	123

## Notes To The Consolidated Financial Statements For The Six Months Ended 30 June 2014

### 14. Earnings Per Share

	30 June 2014 \$'000	30 June 2013 \$'000	31 December 2013 \$'000
Profit from continuing operations for the period – used in the calculation of total earnings per share	20,337	24,423	19,559
Profit from discontinued operations for the period – used in the calculation of total earnings per share	299	1,979	879
Basic earnings per share			
Weighted average number of ordinary shares	119,592,006	120,734,598	121,615,020
Basic earnings per share from continuing operations (cents)	17.0	20.2	16.1
Basic earnings per share from discontinued operations (cents)	0.3	1.6	0.7
Diluted earnings per share			
Weighted average number of ordinary shares	119,592,006	120,800,976	121,615,020
Diluted earnings per share from continuing operations (cents)	17.0	20.2	16.1
Diluted earnings per share from discontinued operations (cents)	0.3	1.6	0.7

The Company completed a 3 for 1 share split on 18 June 2014 which resulted in 119,592,006 shares being on issue at 30 June 2014. Subsequent to 30 June 2014 the Company issued 20,187,000 additional shares in the initial public offer. The weighted average number of ordinary shares used in the calculation of earnings per share for each period presented has been adjusted to reflect the share split.

### 15. Seasonality Of Business

All business segments are subject to seasonal fluctuation. The apple crop has been picked and packed and the export programme is well under way in the first half year. In addition the harvested apple crop held in inventory at 30 June 2014 is valued at fair value less estimated costs to sell. Higher volumes are processed through the food ingredients plants in the first half of the year due to the seasonal nature of the meat industry and there is greater utilisation of storage and logistics services over the first half year as seasonal products are stored and then shipped to export markets.

At 30 June the harvested crop held in inventory is valued at fair value less estimated costs to sell and is classified as inventory within current assets. At 31 December the fair value of the unharvested crop is classified as a non-current biological asset and the fair value assessment represents development costs during the growing cycle which are determined to approximate fair value less estimated costs to sell of the unharvested crop on the trees.

### 16. Events Occurring After Balance Date

A dividend of 11.33 cents per share, with full imputation credits attached, and totalling \$13,566,810 was paid to shareholders on 17 July 2014, being prior to the initial public offer.

On 25 July 2014 the Company successfully completed an initial public offer and listed on the NZX. After the 3 for 1 share split prior to, and the additional shares issued in the IPO, the number of shares on issue is now 139,779,006. Additional share capital of \$31,257,110, before issue costs, was raised in the offer and term debt was subsequently reduced by \$30,000,000.

The shareholding of Direct Capital Investments Limited has reduced from 84.2105% to 20.00% of the ordinary shares and it continues to be the largest shareholder in the Company.

# Directory

## Board of Directors

J I Mayson (Chairman)  
A J Borland (Managing Director)  
T Goodacre  
N J Harris  
M R Hutton  
A R Isaac

## Audit and Risk Committee

A R Isaac (Chairman)  
N J Harris  
M R Hutton

## Remuneration Committee

M R Hutton (Chairman)  
T Goodacre  
J I Mayson

## Auditor

### Deloitte

50 Hazeldean Road  
Christchurch 8024

## Bankers

### ANZ Bank New Zealand Limited

37-41 Rotherham Street  
Christchurch 8041

### Rabobank New Zealand Limited

Level 23  
157 Lambton Quay  
Wellington 6011

### Westpac New Zealand Limited

Level 2  
2 Show Place  
Christchurch 8024

## Solicitor

### Anthony Harper

Level 9  
HSBC Tower  
62 Worcester Boulevard  
Christchurch 8011

## Registered Office

52 Cashel Street  
Christchurch 8013  
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Telephone: 64-3-379-7720  
Website: [www.scalescorporation.co.nz](http://www.scalescorporation.co.nz)

## Postal Address

PO Box 1590  
Christchurch 8140  
New Zealand

## Share Registry

### Computershare Investor Services Limited

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Takapuna  
North Shore City  
Auckland 0622



