Scales Corporation Limited

consolidated financial statements

for the year ended 31 December 2023

Scales Corporation Limited
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Scales Corporation Limited
Directory

Board of Directors
Mike Petersen (Chair) (Appointed 28 April 2023)
Andrew Borland (Managing Director)
Tony Batterton (Appointed 22 August 2023)
Miranda Burdon
Nick Harris
Alan Isaac
Nadine Tunley
Qi Xin
Mark Hutton (Resigned 7 June 2023)
Tim Goodacre (Resigned 28 April 2023)

Audit and Risk Management Committee
Alan Isaac (Chair)
Nick Harris
Tony Batterton

Nominations and Remuneration Committee
Tony Batterton (Chair)
Mike Petersen

Finance and Treasury Committee
Tony Batterton (Chair)
Andrew Borland

Health & Safety and Sustainability Committee
Nadine Tunley (Chair)
Andrew Borland
Miranda Burdon

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Scales Corporation Limited

Consolidated statement of comprehensive income for the year ended 31 December 2023

	Note	2023 $000's	2022 $000's
Revenue	B1	565,356	619,173
Cost of sales	B2	(444,662)	(492,547)
		120,694	126,626
Administration and operating expenses	B2	(64,123)	(53,003)
Impairment of property, plant and equipment	C1	(4,729)	(3,729)
Impairment of goodwill	C4	(8,531)	-
Share of profit of entities accounted for using the equity method	C3	8,131	4,624
Other income	B3	8,569	67
Other losses	B3	(6,336)	(6,069)
EBITDA		53,675	68,516
Amortisation	C7	(497)	(379)
Depreciation	C1	(10,245)	(10,220)
Depreciation of right-of-use asset	G2	(8,711)	(9,087)
EBIT		34,222	48,830
Finance revenue		2,056	1,045
Finance cost	B4	(3,331)	(1,284)
Finance cost of lease liability	G2	(3,144)	(2,953)
PROFIT BEFORE INCOME TAX EXPENSE		29,803	45,638
Income tax expense	B5	(5,129)	(7,407)
PROFIT FOR THE YEAR		24,674	38,231
Profit for the year is attributable to:			
Equity holders of the Company		5,235	19,412
Non-controlling interests		19,439	18,819
		24,674	38,231

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:

	Note	2023	2022
Basic earnings per share (cents)	D5	3.7	13.7
Diluted earnings per share (cents)	D5	3.7	13.7

The notes to the financial statements on pages 11 to 56 form part of and should be read in conjunction with this statement.

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Scales Corporation Limited

Consolidated statement of comprehensive income for the year ended 31 December 2023 (continued)

	Note	2023 $000's	2022 $000's
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on cash flow hedges		11,231	(10,704)
Income tax relating to cash flow hedges		(3,145)	2,997
Share of other comprehensive income of joint ventures	C3	1,554	817
Income tax relating to share of other comprehensive income of joint ventures		22	(229)
Foreign exchange gain on translating foreign operations		307	330
		9,969	(6,789)
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		(3,122)	10,355
Income tax relating to buildings		(740)	(331)
Revaluation of apple trees		936	(3,873)
Income tax relating to apple trees		(262)	1,084
Remeasurement of net defined benefit liability		238	372
Income tax relating to remeasurement of net defined benefit liability		(36)	(44)
		(2,986)	7,563
OTHER COMPREHENSIVE INCOME FOR THE YEAR		6,983	774
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		31,657	39,005
Total comprehensive income for the year attributable to:			
Equity holders of the Company		12,123	20,037
Non-controlling interests		19,534	18,968
		31,657	39,005

The notes to the financial statements on pages 11 to 56 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of changes in equity for the year ended 31 December 2023

	Note	Share capital $000's	Reserves $000's	Retained earnings $000's	Attributable to owners of the Company $000's	Non-controlling interests $000's	Total $000's
Balance at 1 January 2022		99,588	92,160	192,644	384,392	5,922	390,314
Profit for the year		-	-	19,412	19,412	18,819	38,231
Other comprehensive income for the year		-	625	-	625	149	774
Total comprehensive income for the year		-	625	19,412	20,037	18,968	39,005
Recognition of share-based payments	D2	-	609	-	609	-	609
Shares sold	D1	116	-	-	116	-	116
Shares fully vested	D1, D2	2,271	(804)	(234)	1,233	-	1,233
Dividends	D3	-	-	(21,947)	(21,947)	(17,516)	(39,463)
Balance at 31 December 2022		101,975	92,590	189,875	384,440	7,374	391,814
Profit for the year		-	-	5,235	5,235	19,439	24,674
Other comprehensive income for the year		-	6,888	-	6,888	95	6,983
Total comprehensive income for the year		-	6,888	5,235	12,123	19,534	31,657
Recognition of share-based payments	D2	-	456	-	456	-	456
Shares sold	D1	96	-	-	96	-	96
Shares fully vested	D1, D2	1,374	(499)	(145)	730	-	730
Dividends	D3	-	-	(24,493)	(24,493)	(15,312)	(39,805)
Balance at 31 December 2023		103,445	99,435	170,472	373,352	11,596	384,948

The notes to the financial statements on pages 11 to 56 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of financial position as at 31 December 2023

	Note	2023 $000's	2022 $000's
EQUITY			
Share capital	D1	103,445	101,975
Reserves	D2	99,435	92,590
Retained earnings		170,472	189,875
Equity attributable to Scales Corporation Limited shareholders		373,352	384,440
Equity attributable to non-controlling interests		11,596	7,374
TOTAL EQUITY		384,948	391,814
CURRENT ASSETS			
Cash and bank balances		77,638	68,144
Trade and other receivables	E1	34,029	42,102
Current tax assets		3,938	5,334
Other financial assets	E2	5,989	4,938
Unharvested agricultural produce	C2	24,222	25,149
Inventories	C5	29,543	42,647
Prepayments		4,337	4,783
TOTAL CURRENT ASSETS		179,696	193,097
NON-CURRENT ASSETS			
Property, plant and equipment	C1	221,219	221,204
Investments accounted for using the equity method	C3	63,902	54,743
Goodwill	C4	36,972	45,527
Defined benefit plan net asset		60	-
Other financial assets	E2	29,077	15,511
Software	C7	1,160	1,332
Right-of-use asset	G2	49,572	49,044
TOTAL NON-CURRENT ASSETS		401,962	387,361
TOTAL ASSETS		581,658	580,458
CURRENT LIABILITIES			
Bank overdrafts		-	2,368
Trade and other payables	E3	26,446	37,226
Dividend declared	D3	6,041	8,503
Current tax liabilities		616	-
Other financial liabilities	E5	18,524	15,445
Lease liability	G2	10,963	10,925
TOTAL CURRENT LIABILITIES		62,590	74,467
NON-CURRENT LIABILITIES			
Borrowings	E4	65,647	38,732
Deferred tax liabilities	B5	17,104	17,821
Defined benefit plan net liability		-	170
Other financial liabilities	E5	6,699	13,388
Lease liability	G2	44,670	44,066
TOTAL NON-CURRENT LIABILITIES		134,120	114,177
TOTAL LIABILITIES		196,710	188,644
NET ASSETS		384,948	391,814

The notes to the financial statements on pages 11 to 56 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of cash flows for the year ended 31 December 2023

	Note	2023 $000's	2022 $000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		571,987	606,293
Insurance proceeds		4,809	-
Government grants received		1,986	-
Dividends and distributions received		751	1,876
Interest received		1,814	1,393
		581,347	609,562
Cash was disbursed to:			
Payments to suppliers and employees		(502,201)	(545,477)
Interest paid		(6,475)	(4,237)
Income tax paid		(7,971)	(14,983)
		(516,647)	(564,697)
NET CASH PROVIDED BY OPERATING ACTIVITIES		64,700	44,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from maturing term deposits		-	85,000
Advances repaid		255	112
Sale of property, plant and equipment and software		(424)	161
		(169)	85,273
Cash was applied to:			
Purchase of property, plant and equipment	C1	(16,808)	(14,592)
Purchase of software	C7	(325)	(994)
Purchase of non-controlling shareholding		-	(2,180)
Acquisition of interest in joint ventures		-	(25,968)
Advances to joint ventures		(11,869)	(2,818)
		(29,002)	(46,552)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		(29,171)	38,721
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Treasury stock sold		96	116
Drawdowns of term facility borrowings	E4	27,306	-
		27,402	116
Cash was applied to:			
Dividends paid	D3	(26,955)	(26,863)
Dividends paid to non-controlling interests	F2	(15,312)	(17,516)
Repayments of lease liabilities	G2	(8,420)	(8,281)
		(50,687)	(52,660)
NET CASH USED IN FINANCING ACTIVITIES		(23,285)	(52,544)

The notes to the financial statements on pages 11 to 56 form part of and should be read in conjunction with this statement.

Scales Corporation Limited
Consolidated statement of cash flows for the year ended 31 December 2023 (continued)

	Note	2023 $000's	2022 $000's
NET INCREASE IN NET CASH		12,244	31,042
Net foreign exchange difference		(382)	1,532
Cash and cash equivalents at the beginning of the year		65,776	33,202
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		77,638	65,776
Represented by:			
Cash and bank balances		77,638	68,144
Bank overdrafts		-	(2,368)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		77,638	65,776
NET CASH GENERATED BY OPERATING ACTIVITIES			
Reconciliation of profit for the year to net cash generated by operating activities:			
Profit for the year		24,674	38,231
Non-cash items:			
Depreciation (including on right-of-use asset)		18,956	19,307
(Gain) loss on lease modification		(177)	1,854
Impairment on revaluation		4,729	3,729
Amortisation		497	379
Share of equity accounted results		(8,131)	(4,624)
Hedging instruments		(416)	192
Gain on disposal of property, plant and equipment		(118)	(66)
Share-based payments		456	609
Change in value of call and put options		4,121	4,215
Deferred tax		(4,867)	(1,774)
Interest capitalised into loans		(111)	(24)
Fair value loss on interest-free related party loans, net of interest income		1,913	-
Impairment of goodwill		8,531	-
Foreign exchange on related party loans		232	-
Joint ventures purchase price receivable		(1,307)	-
Operating cash receipts not included in profit for the year:			
Dividends received from equity accounted entities		750	1,875
Changes in net assets and liabilities:			
Trade and other receivables		9,662	(12,812)
Unharvested agricultural produce		927	(588)
Inventories		13,040	(12,553)
Prepayments		445	(712)
Trade and other payables		(11,131)	13,429
Current tax assets and liabilities		2,025	(5,802)
NET CASH PROVIDED BY OPERATING ACTIVITIES		64,700	44,865

The notes to the financial statements on pages 11 to 56 form part of and should be read in conjunction with this statement.

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Scales Corporation Limited

Consolidated statement of cash flows for the year ended 31 December 2023 (continued)

Statement of cash flows

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

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

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

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

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

For and on behalf of the Board of Directors who authorised the issue of the financial statements on 21 February 2024.

Mike Petersen, Chair	Andy Borland, Managing Director

The notes to the financial statements on pages 11 to 56 form part of and should be read in conjunction with this statement.

ABOUT THIS REPORT

IN THIS SECTION

The notes to the financial statements include information which is considered relevant and material to assist the reader in understanding the financial performance and financial position of the Scales Corporation Limited Group ("Scales" or the "Group"). Information is considered relevant and material if:

• the amount is significant because of its size and nature;
• it is important for understanding the results of Scales;
• it helps to explain changes in Scales' business; or
• it relates to an aspect of Scales' operations that is important to future performance.

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

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

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

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

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable. The levels are described as:
• Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
• Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly; and
• Level 3 inputs are unobservable inputs for the asset or liability.

Key judgements and estimates

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

ABOUT THIS REPORT (CONTINUED)

Key judgements and estimates (continued)

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

- Apple trees in note C1;
- Unharvested agricultural produce in note C2;
- Assessment of Group goodwill for impairment in note C4.

Basis of consolidation

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

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

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

Other accounting policies

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

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

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

The Group has reviewed the standards, interpretations and amendments to existing standards issued but not yet effective and does not expect these standards to have a material effect on the financial statements of the Group when adopted.

A. SEGMENT INFORMATION

IN THIS SECTION

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

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

SEGMENT REPORTING

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

Change in segments:
In 2022 the presentation of operating segments was amended. The Food Ingredients segment was renamed to Global Proteins and now includes the new entities acquired during the previous year. Profruit (2006) Limited was moved to the Horticulture segment. This impacted the share of profit in entities accounted for using the equity method and the carrying value of investments accounted for using the equity method.

The Group comprises the following operating segments:
Global Proteins: processing and marketing of proteins such as pet food ingredients, edible meat and offal products. Meateor Foods Limited, Meateor Foods Australia Pty Limited, Meateor Group Limited, Meateor US LLC, Shelby JV LLC Group (Shelby Cold Storage LLC, Shelby Exports Inc, Shelby Foods LLC, Shelby JV LLC, Shelby Properties LLC, Shelby Trucking LLC), Meateor GP Limited, Meateor Pet Foods Limited Partnership, Scales FI Group Holdings Pty Limited, Meateor Australia Pty Limited, FI Group Holdings Pty Limited Group (FI Group Holdings Pty Limited, Fayman International Group Pty Limited and Fayman New Zealand Limited), ANZ Exports Pty Limited and Esro Petfood B.V.
Horticulture: orchards, fruit packing, juice concentrate processing and marketing. Mr Apple New Zealand Limited, New Zealand Apple Limited, Fern Ridge Produce Limited, Longview Group Holdings Limited and Profruit (2006) Limited.
Logistics: logistics services. Scales Logistics Limited and Scales Logistics Australia Pty Ltd.
Other: Scales Corporation Limited, Geo. H. Scales Limited, Scales Employees Limited, Scales Holdings Limited and Selacs Insurance Limited.

	Global Proteins	Horticulture	Logistics	Other	Eliminations	Total
	$000's	$000's	$000's	$000's	$000's	$000's
2023						
Total segment revenue	298,547	209,939	92,568	3,007	(38,705)	565,356
Inter-segment revenue	-	-	(35,684)	(3,021)	38,705	-
Revenue from external customers	298,547	209,939	56,884	(14)	-	565,356
Gain on sale of non-current assets	(5)	123	-	-	-	118
Insurance proceeds	-	4,809	-	-	-	4,809
Share of profit of entities accounted for using the equity method	6,369	1,762	-	-	-	8,131
Impairment of property, plant and equipment	-	(4,729)	-	-	-	(4,729)
Goodwill impairment	-	(8,531)	-	-	-	(8,531)
Gain on lease modification	-	177	-	-	-	177

SEGMENT REPORTING (CONTINUED)

	Global Proteins	Horticulture	Logistics	Other	Eliminations	Total
	$000's	$000's	$000's	$000's	$000's	$000's
EBITDA	52,245	4,493	4,281	(7,344)	-	53,675
Amortisation expense	-	(473)	(17)	(7)	-	(497)
Depreciation expense	(791)	(9,213)	(217)	(24)	-	(10,245)
Depreciation of right-of-use asset	(66)	(8,071)	(493)	(81)	-	(8,711)
Finance revenue	336	86	57	1,577	-	2,056
Finance costs	(57)	(7)	(36)	(3,231)	-	(3,331)
Finance cost of lease liability	(12)	(2,753)	(339)	(40)	-	(3,144)
Income tax expense	(8,978)	2,558	(928)	2,219	-	(5,129)
Segment profit (loss) after income tax	42,677	(13,380)	2,308	(6,931)	-	24,674

	Global Proteins	Horticulture	Logistics	Other	Eliminations	Total
	$000's	$000's	$000's	$000's	$000's	$000's
Segment assets	177,176	324,689	20,797	58,996	-	581,658
Segment liabilities	30,301	88,696	12,657	65,056	-	196,710
Segment carrying value of investment accounted for using the equity method	56,033	7,870	-	-	-	63,903
Segment acquisition of property, plant and equipment and software	6,157	10,608	234	137	-	17,136
Segment acquisition of right-of-use assets	(0)	10,051	356	760	-	11,167
2022						
Total segment revenue	319,923	228,854	123,338	2,893	(55,835)	619,173
Inter-segment revenue	-	-	(52,894)	(2,941)	55,835	-
Revenue from external customers	319,923	228,854	70,444	(48)	-	619,173
Gain on sale of non-current assets	-	66	-	-	-	66
Share of profit of entities accounted for using the equity method	3,556	1,068	-	-	-	4,624
Reversal of (impairment) impairment on revaluation	-	(3,729)	-	-	-	(3,729)
Loss on lease modification	-	(1,854)	-	-	-	(1,854)
						-
EBITDA	58,913	10,332	6,595	(7,324)	-	68,516
Amortisation expense	-	(361)	(18)	-	-	(379)
Depreciation expense	(747)	(9,285)	(176)	(12)	-	(10,220)
Depreciation of right-of-use asset	(64)	(8,393)	(572)	(58)	-	(9,087)
Finance revenue	36	20	18	971	-	1,045
Finance costs	(25)	(62)	(39)	(1,158)	-	(1,284)
Finance cost of lease liability	(14)	(2,664)	(264)	(11)	-	(2,953)
Income tax expense	(11,012)	2,871	(1,615)	2,323	26	(7,407)
Segment profit (loss) after income tax	47,087	(7,542)	3,929	(5,269)	26	38,231

SEGMENT REPORTING (CONTINUED)

	Global Proteins	Horticulture	Logistics	Other	Eliminations	Total
	$000's	$000's	$000's	$000's	$000's	$000's
Segment assets	169,018	345,096	29,032	37,312	-	580,458
Segment liabilities	46,398	107,850	15,967	18,429	-	188,644
Segment carrying value of investment accounted for using the equity method	47,885	6,858	-	-	-	54,743
Segment acquisition of property, plant and equipment and software	3,491	11,898	168	26	-	15,583
Segment acquisition of right of use assets	42	6,614	33	-	-	6,689

Non-current assets other than financial instruments by geographical location

	New Zealand		Australia		USA		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Property, plant and equipment	208,421	213,614	25	31	12,773	7,559	221,219	221,204
Investments accounted for using the equity method	29,503	27,674	34,399	27,069	-	-	63,902	54,743
Goodwill	7,657	16,189	-	-	29,315	29,338	36,972	45,527
Software	1,160	1,332	-	-	-	-	1,160	1,332
Right-of-use asset	49,197	48,578	123	149	252	317	49,572	49,044

B. FINANCIAL PERFORMANCE

IN THIS SECTION
This section explains the financial performance of Scales, providing additional information about individual items in the statement of comprehensive income, including:
• accounting policies, judgements and estimates that are relevant for understanding items recognised in the statement of comprehensive income; and
• analysis of Scales' performance for the year by reference to key areas including revenue, expenses and taxation.

B1. REVENUE

	2023 $000's	2022 $000's
By nature:		
Revenue from the sale of goods	492,874	525,298
Revenue from the rendering of services	77,271	88,990
Fees and commission	16	13
Net foreign exchange loss/(gain)	(9,450)	(544)
Rental revenue	4,645	5,416
	565,356	619,173
By market:		
New Zealand	68,354	95,627
Asia	159,907	162,097
Europe	30,540	32,262
North America	304,001	325,855
Other	2,554	3,332
	565,356	619,173
By segment and type:		
Horticulture - sale of agricultural produce	193,759	214,084
Horticulture - agricultural produce related services	11,543	9,363
Horticulture - other	4,637	5,407
Global Proteins - sale of pet food ingredients	290,216	310,517
Global Proteins - other	8,331	9,406
Logistics services	56,884	70,444
Other	(14)	(48)
	565,356	619,173

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

B1. REVENUE (CONTINUED)

Sale of agricultural produce

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

Outright sales

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

Consignment sales

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

Sale of petfood ingredients

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

Delivered to destination sales

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

Outright sales

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

Agricultural produce related services

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

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

Logistics services

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

B2. COST OF SALES, ADMINISTRATION AND OPERATING EXPENSES

	2023 $000's	2022 $000's
Auditor's remuneration:		
Deloitte Limited (New Zealand):		
Audit of the financial statements:		
Audit of the annual financial statements	321	285
Other assurance services:		
Audit of solvency certificate for Selacs Insurance Limited	9	7
Sheehan & Company CPA, PC (United States):		
Group reporting audit	134	115
Review of subsidiary financial statements	37	35
Lowe Lippmann (Australia):		
Group reporting audit	22	-
Bad debts incurred (recovered)	2,847	(112)
Change in fair value adjustment to unharvested agricultural produce	(480)	(131)
Change in inventories	11,559	(12,688)
Direct expenses	91,267	99,408
Directors' fees	716	677
Donations	261	10
Electricity	3,036	3,583
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,232	1,265
Post employment benefits - defined benefit plans	627	689
Salaries, wages and related benefits	87,778	94,037
Other employee benefits	456	609
Grower payments	35,318	31,568
Insurance	4,537	4,190
Management fees	48	44
Materials and consumables	153,817	182,046
Ocean and air freight	92,533	118,136
Operating lease expenses	1,990	2,218
Packaging	13,673	14,029
Provision (reversal of) for write-down of inventories	1,825	(107)
Repairs and maintenance	5,222	5,637
	508,785	545,550

Disclosed as:		
Cost of sales	444,662	492,547
Administration and operating expenses	64,123	53,003
	508,785	545,550

Employee benefits

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

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

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

B3. OTHER INCOME AND LOSSES

	2023 $000's	2022 $000's
Dividends	1	1
Gain on disposal of property, plant and equipment	118	66
Insurance proceeds	4,809	-
Gain on joint ventures earn-out provision settlement	1,307	-
Gain on joint ventures call options	171	-
Government grants - Cyclone Gabrielle	1,986	-
Gain (loss) on lease modification	177	(1,854)
Fair value loss on interest-free related party loans	(2,044)	-
Remeasurement of gross liability on put options to non-controlling interest	(4,292)	(4,215)
	2,233	(6,002)
Disclosed as:		
Other income	8,569	67
Other losses	(6,336)	(6,069)
	2,233	(6,002)

B4. FINANCE COST

Interest on loans	3,234	1,140
Other interest	7	73
Bank facility fees	90	71
	3,331	1,284

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

B5. TAXATION

Income tax recognised in profit or loss		
Income tax expense comprises:		
Current tax expense	8,077	9,324
Adjustments recognised in the current year in relation to the current tax of prior years	1,919	(143)
Deferred tax expense relating to the origination and reversal of temporary differences	(4,867)	(1,774)
Total income tax expense recognised in profit or loss	5,129	7,407

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before tax	29,803	45,638
Income tax expense calculated at applicable corporate tax rates	7,973	11,830
Non-assessable income	(7,650)	(5,404)
Non-deductible expenses	4,454	1,124
Under (over) provision of income tax in previous year - current tax	1,919	(143)
(Over) under provision of income tax in previous year - deferred tax	(1,567)	-
	5,129	7,407

B5. TAXATION (CONTINUED)

The tax rates used in the above reconciliation are the corporate tax rate of 28% payable by New Zealand companies under New Zealand tax law, 30% payable by Australian companies under Australian tax law and 26.82% (2022: 25.5%) payable by US entities under US tax law, being federal tax 21% and weighted average state tax 5.82% (2022: 4.5%).
Shelby JV LLC and its subsidiaries are look-through entities for US income tax purposes. Therefore, although the Group includes 100% of its net profit before tax, separately disclosing non-controlling interest, the Group only includes 60% of its income tax.

	Opening balance	Charged to profit or loss	Charged to other comprehensive income	Foreign exchange movements	Closing Balance
	$000's	$000's	$000's	$000's	$000's
Deferred tax liability					
Taxable and deductible temporary differences arise from the following:					
31 December 2023					
Deferred tax liabilities (assets):					
Trade and other receivables	82	(129)	-	-	(47)
Unharvested agricultural produce	7,042	(260)	-	-	6,782
Property, plant and equipment and software	13,960	(2,517)	1,002	(10)	12,435
Trade and other payables	(708)	(389)	-	-	(1,097)
Lease liability and right-of-use asset (NZ IFRS 16)	(1,686)	(32)	-	-	(1,718)
Other financial assets and liabilities, joint ventures and pension plan	(869)	(1,540)	3,159	(1)	749
Net deferred tax liability	17,821	(4,867)	4,161	(11)	17,104
31 December 2022					
Deferred tax liabilities (assets):					
Trade and other receivables	11	71	-	-	82
Unharvested agricultural produce	6,877	165	-	-	7,042
Property, plant and equipment and software	15,985	(1,409)	(753)	137	13,960
Trade and other payables	(850)	142	-	-	(708)
Lease liability and right-of-use asset (NZ IFRS 16)	(939)	(743)	-	(4)	(1,686)
Other financial assets and liabilities, joint ventures and pension plan	1,860	-	(2,724)	(5)	(869)
Net deferred tax liability	22,944	(1,774)	(3,477)	128	17,821

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

Income tax

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

B6. FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

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

C. KEY ASSETS

IN THIS SECTION

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

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

C1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings at fair value	Apple trees at fair value	Plant and equipment at cost	Office equipment and motor vehicles at cost	Capital work in progress at cost	Total
	$000's	$000's	$000's	$000's	$000's	$000's
Gross carrying amount						
Balance at 1 January 2022	143,451	35,394	71,308	12,401	8,065	270,619
Additions	721	2,437	11,055	1,793	(1,414)	14,592
Disposals	-	-	(100)	(534)	(21)	(655)
Revaluation	8,257	(6,030)	-	-	-	2,227
Effect of foreign currency translation	158	-	301	2	29	490
Balance at 31 December 2022	152,587	31,801	82,564	13,662	6,659	287,273
Additions	258	1,373	6,100	1,195	7,882	16,808
Disposals	(402)	-	(1,274)	(815)	(30)	(2,521)
Revaluation	(5,101)	(853)	-	-	-	(5,954)
Effect of foreign currency translation	(3)	-	(82)	-	(114)	(199)
Balance at 31 December 2023	147,339	32,321	87,308	14,042	14,397	295,407
Accumulated depreciation, and impairment						
Balance at 1 January 2022	1,264	800	44,986	9,700	-	56,750
Depreciation expense	2,098	2,157	4,909	1,056	-	10,220
Disposals	-	-	(39)	(519)	-	(558)
Revaluation	(2,098)	(2,157)	-	-	-	(4,255)
Impairment on revaluation	67	3,661	-	-	-	3,728
Effect of foreign currency translation	-	-	183	1	-	184
Balance at 31 December 2022	1,331	4,461	50,039	10,238	-	66,069
Depreciation expense	2,140	1,790	5,093	1,222	-	10,245
Disposals	(375)	-	(1,973)	(717)	-	(3,065)
Revaluation	(1,979)	(1,789)	-	-	-	(3,768)
Impairment on revaluation	935	2,418	-	-	-	3,353
Impairment on disposals	214	-	1,162	-	-	1,376
Effect of foreign currency translation	-	-	(22)	-	-	(22)
Balance at 31 December 2023	2,266	6,880	54,299	10,743	-	74,188
Net book value						
As at 31 December 2022	151,256	27,340	32,525	3,424	6,659	221,204
As at 31 December 2023	145,073	25,441	33,009	3,299	14,397	221,219

C1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Accounting policy

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

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

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

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

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

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

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

Land and buildings carried at fair value

Land and buildings shown at valuation were valued at fair value as at 31 December 2023 by independent registered valuers Added Valuation Limited and Logan Stone Limited. The valuations were arrived at by reference to market evidence of transaction prices for similar properties.
The impact of Cyclone Gabrielle has been considered as part of the valuation process, refer to note G5.

C1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land and buildings carried at fair value (continued)

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Group finance team led by the Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the Group finance team's findings to the Audit & Risk Management Committee to explain the methods used and causes of fluctuations in the fair value of assets and liabilities.

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

The significant unobservable inputs, based on regional averages, for the land and buildings (mainly coolstores and packhouses) are potential market comparative rentals $6 - $250 per square metre (2022: $5 - $250) and the capitalisation rates of 6.4% - 10% (2022: 5.6% - 10%).

The higher the rental rates the higher the fair value. The higher the capitalisation rates the lower the fair value. Significant changes in either of these inputs would result in significant changes to the fair value measurement. Orchard land is valued within the range of $27,400 - $170,000 per hectare (2022: $39,500 to $180,000).

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

The carrying amount of land and buildings had it been recognised under the cost model is $59,556,000 (2022: $62,365,000).

Apple trees carried at fair value

The Group's apple orchards, being the apple trees other than the existing crop on the trees, were valued at fair value by Boyd Gross B.Agr (Rural Val), Dip Bus Std, FNZIV, FPINZ of Logan Stone Limited as at 31 December 2023.

The market valuations completed by Boyd Gross were based on a discounted cash flows analysis of forecast income streams and costs. They were benchmarked against a comparison of sales of other orchards adjusted to reflect the location, plantings, age and varieties of trees and productive capabilities of the orchards. The fair value of orchard land and buildings are deducted from the overall orchard valuation to give rise to the apple trees valuation. The impact of Cyclone Gabrielle has been considered as part of the valuation process, refer to note G5.

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

	2023	2022
Production levels (gross tray carton equivalent (tce)) per hectare	2,894 - 5,459	2,485 - 5,249
Orchard gate returns per tce	$22.00 - $55.00	$20.00 - $62.00
Orchard costs per tce	$19.00 to $31.44	$20.21 to $37.16
Discount rate	15.5% - 17.5%	15.6% - 17.1%

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

The carrying amount of apple trees had it been recognised under the cost model is $11,039,000 (2022: $13,873,323).

C1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Total hectares planted	
	2023	2022
Premium varieties:		
NZ Queen	206	205
Pink Lady	101	117
Red sports (Fuji and Royal Gala)	275	268
Other premium	236	174
Traditional varieties:		
Braeburn	34	86
Royal Gala	122	152
Other traditional	112	147
	1,086	1,149

Risk management strategy:

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

C2. UNHARVESTED AGRICULTURAL PRODUCE

	2023 $000's	2022 $000's
Balance at beginning of the year	25,149	24,561
Decrease due to harvest	(25,149)	(24,561)
Development expenditure	24,981	26,388
Fair value adjustment	(759)	(1,239)
Balance at end of the year	24,222	25,149

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

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

The significant unobservable inputs included in the model are the:

	2023	2022
Production levels (tonnes per hectare per annum)	42 - 164	60 - 111
Orchard gate returns per tce	\$24 to \$67	\$23 to \$65
Risk adjusting discount rates	46% to 64%	46% to 64%

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

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Joint ventures	Principal activity	Country of incorporation	Holding 2023	Holding 2022	Balance date
ANZ Exports Pty Ltd	Trading company	Australia	42.50%	42.50%	30 June
Esro Petfood B.V	Trading company	The Netherlands	50%	N/A	31 December
FI Group Holding Pty Ltd	Trading company	Australia	50%	50%	30 June
Meateor Australia Pty Ltd	Trading company	Australia	33.33%	33.33%	30 June
Meateor Pet Foods Limited Partnership	Trading company	New Zealand	50%	50%	31 December
Profruit (2006) Limited	Trading company	New Zealand	50%	50%	31 December

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

The Australian incorporated entities have a balance date of 30 June which aligns with the income tax year in Australia.

On 31 October 2022, Scales acquired the shareholdings of FI Group Holding Pty Limited, ANZ Exports Pty Limited and Meateor Australia Pty Limited. On the same date, Scales provided a put option to the other shareholders of each entity for the remaining shares and the shareholders provided Scales with a call option for the remaining shares. The exercise price is set at a value based on a multiple of the respective entities EBITDA.
The options are recorded in the statement of financial position, refer to note E2.

On 10 August 2023, Scales subscribed to a 50% shareholding in a Europe based newly established petfood ingredient processing operation, Esro Petfood B.V.

Summarised financial information for Profruit (2006) Limited for the year ended 31 December

	2023 $000's	2022 $000's
Current assets	17,096	14,558
Non-current assets	6,032	6,015
Current liabilities	(7,390)	(4,717)
Non-current liabilities	-	(2,142)
Net assets	15,738	13,714
Group's share in the net assets	7,869	6,857
Carrying amount of investment in equity accounted entities	7,869	6,857
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	491	164
Current financial liabilities (excluding trade and other payables and provisions)	(2,143)	(326)
Non-current financial liabilities (excluding trade and other payables and provisions)	-	(2,142)
Capital commitments	357	278
Revenue	26,225	26,504
Profit for the year after tax	3,525	2,128
Other comprehensive income attributable to the owners of the company	-	-
Total comprehensive income	3,525	2,128

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

	2023 $000's	2022 $000's
The above profit for the year includes the following:		
Depreciation and amortisation	668	646
Interest expense	734	469
Income tax expense	1,383	838

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2023 $000's	2022 $000's
Share of profit before taxation	2,454	1,484
Share of income tax	(692)	(415)
Share of other comprehensive income (net of tax)	-	-
Share of net profit for the year and total comprehensive income	1,762	1,069
Carrying value at beginning of the year	6,857	6,663
Dividends and distributions paid	(750)	(875)
Investment in equity accounted entities	7,869	6,857

Summarised financial information for Meateor Pet Foods Limited Partnership for the year ended 31 December

	2023 $000's	2022 $000's
Current assets	28,162	25,679
Non-current assets	33,389	29,328
Current liabilities	(14,421)	(10,526)
Non-current liabilities	(3,862)	(2,847)
Net assets	43,268	41,634
Group's share in the net assets of equity accounted entities	21,634	20,817
Carrying amount of investment in equity accounted entities	21,634	20,817
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	422	320
Current financial liabilities (excluding trade and other payables and provisions)	(8,400)	(3,600)
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-
Capital commitments	750	2,000
Revenue	53,007	52,665
Profit for the year after tax	1,788	3,224
Other comprehensive income attributable to the owners of the company	(154)	1,634
Total comprehensive income	1,634	4,858
The above profit for the year includes the following:		
Depreciation and amortisation	1,322	1,253
Interest expense	649	245
Income tax expense	-	-

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2023 $000's	2022 $000's
Share of profit before taxation	894	1,612
Share of income tax	-	-
Share of other comprehensive income (net of tax)	(77)	817
Share of net profit for the year and total comprehensive income	817	2,429
Carrying value at beginning of the year	20,817	19,388
Dividends and distributions paid by equity accounted entities	-	(1,000)
Investment in equity accounted entities	21,634	20,817

Summarised financial information for the Fayman equity accounted entities for the year ended 31 December
The accounting for the acquisitions of FI Group Holdings Pty Limited, ANZ Exports Pty Limited and Meateor Australia Pty Limited have been finalised during 2023.
The 2022 comparatives have been restated to record the goodwill on acquisition.
The finalisation of the acquisition accounting resulted in the restatement of the 2022 comparatives to record goodwill on acquisition.

	2023 $000's	2022 (Restated) $000's
Current assets	62,020	35,931
Non-current assets	67,693	33,756
Current liabilities	(43,255)	(21,613)
Non-current liabilities	(37,668)	(13,678)
Net assets	48,790	34,396
Group's share in the net assets of equity accounted entities	24,059	17,199
Goodwill	10,117	10,713
Effect of foreign exchange translation	224	(841)
Carrying amount of investment in equity accounted entities	34,400	27,071
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	492	1,533
Current financial liabilities (excluding trade and other payables and provisions)	(27,035)	(14,742)
Non-current financial liabilities (excluding trade and other payables and provisions)	(39,036)	(13,607)
Revenue	384,033	48,546
Profit for the year after tax	10,511	4,112
Other comprehensive income attributable to the owners of the company	1,031	-
Total comprehensive income	11,542	4,112
The above profit for the year includes the following:		
Depreciation and amortisation	876	7
Interest expense	1,820	268
Income tax expense	5,177	1,706

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2023 $000's	2022 (Restated) $000's
Share of profit before taxation	7,121	2,783
Share of income tax	(1,647)	(839)
Share of other comprehensive income (net of tax)	1,631	-
Share of net profit for the year and total comprehensive income	7,105	1,944
Carrying value at beginning of the year	27,071	-
Investment acquired	-	25,968
Dividends and distributions paid by equity accounted entities	-	-
Effect of foreign exchange translation	224	(841)
Investment in equity accounted entities	34,400	27,071

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Summarised financial information for Esro Petfood B.V. for the year ended 31 December

	2023 $000's
Current assets	1,838
Non-current assets	5,479
Current liabilities	(1,040)
Non-current liabilities	(7,984)
Net assets	(1,707)
Group's share in the net assets of equity accounted entities	(854)
Effect of foreign exchange translation	-
Carrying amount of investment in equity accounted entities	-
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	566
Current financial liabilities (excluding trade and other payables and provisions)	(105)
Non-current financial liabilities (excluding trade and other payables and provisions)	(7,984)
Revenue	714
Profit for the year after tax	(1,340)
Other comprehensive income attributable to the owners of the company	-
Total comprehensive income	(1,340)
The above profit for the year includes the following:	
Depreciation and amortisation	69
Interest expense	211
Income tax expense	447

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

Share of profit before taxation	-
Share of income tax	-
Share of other comprehensive income (net of tax)	-
Share of net profit for the year and total comprehensive income	-
Carrying value at beginning of the year	-
Dividends and distributions paid by equity accounted entities	-
Effect of foreign exchange translation	-
Investment in equity accounted entities	-

Esro Petfood B.V. generated a loss of $1.3m, (Scales share of $0.6m) for the year end 31 December 2023. Scales does not provide a guarantee which results in the loss being capped at zero. For financial reporting purposes no profit has been recognised in Scales Group result for 2023.

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

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

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

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

C4. GOODWILL

	2023 $000's	2022 $000's
Gross carrying amount		
Balance at beginning of the year	45,527	43,392
Impairment of goodwill	(8,531)	-
Effect of foreign currency exchange differences	(24)	2,135
Balance at end of the year	36,972	45,527

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually, or more frequently if there are indications that goodwill might be impaired. For the purpose of impairment testing, goodwill has been allocated to the cash-generating units (CGUs) listed below which represent the lowest level at which the Directors monitor goodwill.

	2023 $000's	2022 $000's
Horticulture - Fern Ridge	5,702	5,702
Horticulture - Mr Apple	-	8,531
Global Proteins - Shelby	29,315	29,339
Logistics	1,955	1,955
	36,972	45,527

As at 31 December 2023, the Directors have determined, based on discounted cash flow and value in use calculations, that there is no impairment of goodwill associated with Fern Ridge, Shelby and Logistics.

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

Deloitte.
for
Identification

C4. GOODWILL (CONTINUED)

	2023	2022
Pre-tax discount rates	12-16%	12-16%
Annual growth rates	3%	3%

The Directors consider that any reasonably possible changes in the key assumptions would not cause the carrying amount of any of the CGUs to exceed their recoverable amount.

The directors have determined that there is an impairment of the Mr Apple CGU as at 30 June 2023, as the carrying value exceeded the recoverable amount. The impairment arose due to the orchard damage and reduced volumes due to Cyclone Gabrielle, refer to note G5, and increasing interest rates.

The directors estimated the recoverable amount of the Mr Apple CGU based on a value in use calculation which uses future cash flows covering a 5-year period.

Mr Apple CGU	$000's
Recoverable amount of the Mr Apple CGU	211,978
Carrying value	220,509
Impairment	(8,531)

Key assumptions:	2023	2022
Post-tax discount rate	9.02%	8.67%
Terminal growth rate beyond year 5	2.10%	2.00%

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

The sensitivity of the recoverable amount of the Mr Apple CGU to reasonably possible changes is set out below:

	$000's	$000's
	+0.5%	-0.5%
Post-tax discount rate	(14,784)	17,007
Terminal growth rate	12,214	(10,568)
	+5%	-5%
Forecast earnings	16,781	(16,781)

As a result of the impairment testing, the impairment was wholly allocated to the Mr Apple CGU goodwill.

C5. INVENTORIES

	2023	2022
	$000's	$000's
Finished goods	24,854	37,810
Other	4,689	4,837
	29,543	42,647

C5. INVENTORIES (CONTINUED)

Inventories are stated at the lower of cost and net realisable value. Cost means the actual cost of the inventory and in determining cost the first in first out basis of stock movement is followed, with due allowance having been made for obsolescence. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

A provision of $1.6m has been recorded relating to aged inventory within the Global Proteins division. The provision relates to inventory that has reached or nearing its expiry date and cannot be sold or may not be sold with certainity in the market. The provision includes the costs of the inventory plus disposal costs.

C6. IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

C7. SOFTWARE

Software is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item. Amortisation is calculated on a straight line basis. The estimated useful live of 3 years is used in the calculation of amortisation.

	2023 $000's	2022 $000's
Gross carrying amount		
Opening balance	8,233	7,239
Additions	325	994
Closing balance	8,558	8,233
Accumulated amortisation		
Opening balance	(6,901)	(6,522)
Amortisation expense	(497)	(379)
Closing balance	(7,398)	(6,901)
Net book value	1,160	1,332

D. CAPITAL FUNDING

IN THIS SECTION

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

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

Capital management

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

D1. SHARE CAPITAL

Issued and paid up capital consists of 143,095,981 fully paid ordinary shares (2022: 142,721,868) less treasury stock of 1,160,229 shares (2022: 1,088,295 shares) (refer to note D2). All shares rank equally in all respects.

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

	Number of shares	
Fully paid ordinary shares:	2023	2022
Opening balance	142,721,868	142,394,837
Share Scheme - shares issued	374,113	327,031
Closing balance	143,095,981	142,721,868
Treasury stock:		
Opening balance	1,088,295	1,230,166
Share Scheme - shares issued	374,113	327,031
Share Scheme - shares forfeited and sold	(28,898)	(27,657)
Share Scheme - shares fully vested	(273,281)	(441,245)
Closing balance	1,160,229	1,088,295

The available subscribed capital of $50,313,936 (2022: $49,101,810) represents the amount of the shareholders' equity that is available to be returned to shareholders on a tax-free basis.

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

Movement in share capital related to share-based payments:	2023 $000's	2022 $000's
Equity-settled employee benefit share scheme vested		
Interest-free loan became full recourse	730	1,233
Accumulated share option value reclassified from reserve into share capital	499	804
Accumulated dividends reclassified from retained earnings into share capital	145	234
	1,374	2,271

D2. RESERVES

	Revaluation	Cash flow hedge	Share of joint ventures	Equity-settled employee benefits	Foreign exchange translation	Pension plan reserve	Total reserves
	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Balance at 1 January 2022	86,310	5,021	(70)	1,277	(168)	(210)	92,160
Other comprehensive income (loss)	7,235	(7,707)	588	-	330	179	625
Transfer to retained earnings	-	-	-	-	-	-	-
Recognition of share-based payments	-	-	-	609	-	-	609
Shares fully vested	-	-	-	(804)	-	-	(804)
Balance at 31 December 2022	93,545	(2,686)	518	1,082	162	(31)	92,590
Other comprehensive (loss) income	(3,188)	8,086	1,576	-	307	107	6,888
Transfer to retained earnings	-	-	-	-	-	-	-
Recognition of share-based payments	-	-	-	456	-	-	456
Shares fully vested	-	-	-	(499)	-	-	(499)
Balance at 31 December 2023	90,357	5,400	2,094	1,039	469	76	99,435

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

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

Equity-settled employee benefits reserve - LTI Scheme
The Share Scheme involves the Company making available interest-free loans to selected senior executives to acquire shares in the Company. The senior executives will not gain any benefit with respect to the shares purchased under the Share Scheme unless they remain in employment with the Group for a period of three years from the date of acquisition of those shares.

The shares are held by a custodian during the restricted period and are then transferred to the senior executive. All net dividends or distributions received in respect of the shares must be applied to repayment of the interest-free loan.

Grant date	Vesting date	Exercise price, $	Number of shares				
			Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
30 April 2020 - FY19	30 April 2023	3.20	282,125	-	(8,844)	(273,281)	-
28 June 2020 - FY19R	24 August 2024	4.19	194,511	-	-	-	194,511
30 April 2021 - FY20	30 April 2024	3.20	284,628	-	(8,922)	-	275,706
30 April 2022 - FY21	30 April 2025	3.20	327,031	-	(11,132)	-	315,899
30 April 2023 - FY22	30 April 2026	3.33	-	374,113	-	-	374,113
Total			1,088,295	374,113	(28,898)	(273,281)	1,160,229

D2. RESERVES (CONTINUED)

The weighted average share price for shares that vested during 2023 was $3.14.

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

	2023	2022
	FY22	FY21
The inputs into the "option pricing calculator" are:		
Issue date share price, $	3.24	5.03
Expected share price volatility, %	25	25
Option life, years	3	3
Risk-free interest rate, %	4.14	3.27
Exercise price, $	3.33	3.20
Fair value, at the grant date, $	0.69	2.21

Equity-settled employee benefits reserve - PSR Scheme

On 15 December 2023 the Board approved the Scales' Performance Share Rights Plan to grant performance rights to key senior management personnel as a long-term incentive programme. The first round of performance rights were issued under this programme during the period.
Performance rights granted are summarised below:

Grant date	Vesting date	Number of rights				
		Opening balance	Granted	Forfeited	Vested and exercised	Closing balance
20 December 2023 - FY23 Tranche 1	9/03/2026	-	56,748	-	-	56,748
20 December 2023 - FY23 Tranche 2	23/03/2026	-	38,113	-	-	38,113
20 December 2023 - FY23 Tranche 3	9/03/2026	-	228,095	-	-	228,095

D2. RESERVES (CONTINUED)

TSR Hurdles - Tranches 1 and 3

The proportion of performance rights subject to the absolute TSR growth hurdle which may vest is dependent on Scales' TSR compound annual growth rate (CAGR) across a 3-year measurement period.
TSR is the Company's total shareholder returns. TSR measures the total return received by Scales' investors from the increase in the "market value" of an ordinary share in Scales and the receipt of gross dividends and other distributions, from the Commencement Date to the Vesting date.
For each tranche that vests the rights are awarded on a straight-line basis dependent on the TSR CAGR achieved. The percentage of TSR related performance rights vest according to the following performance criteria for each unvested tranche:

Tranche 1 - % vesting	FY23 Round
0%	< 8.5% CAGR
25%	= 8.5% CAGR
26% - 99% (Straight-line prorata)	> 8.5%, < 12.5% CAGR
100%	= 12.5% CAGR

Tranche 3 - % vesting	FY23 Round
0%	= 12.5 % CAGR
1% - 99% (Straight-line prorata)	> 12.5%, < 31.1% CAGR
100%	= 31.1% CAGR

The TSR performance tranches are calculated across the following periods:

Round	Vesting Period
FY23 - Tranche 1 and 3	20 December 2023 to 7 days after the announcement date of the FY25 Result

D2. RESERVES (CONTINUED)

The fair value of the TSR performance rights have been valued under a variant of the dividend adjusted Monte Carlo simulation. The fair value of TSR performance rights, along with the assumptions used to simulate the future share prices are shown below:

	FY23 - Tranche 1	FY23 - Tranche 3
Current price at grant date	$3.17	$3.17
Risk free interest rate	4.53%	4.53%
Expected life (years)	2.2 years	2.2 years
Expected share volatility[1]	31.12%	31.12%

1. Volatility represents the volatility of the Scales Corporation's NZD share price over a 3-year period to December 2023.

The estimated fair value for each tranche of performance rights issued is amortised over the vesting period from the grant date.

EPS Hurdles - Tranche 2

The proportion of performance rights subject to the EPS growth hurdle which may vest is dependent on Scales' EPS compound annual growth rate (CAGR) across a 3-year measurement period. For each tranche that vests the rights are awarded on a straight-line basis dependent on the EPS CAGR achieved. EPS growth hurdle is considered a non-market condition.
The percentage of EPS related performance rights vest according to the following performance criteria:

Tranche 2 - % vesting	FY23 Round
0%	< 5% CAGR
25%	= 5% CAGR
26% - 99% (Straight-line prorata)	> 5%, < 10% CAGR
100%	= 10% CAGR

The EPS performance is calculated across the following periods:

Round	Vesting Period
FY23 - Tranche 2	20 December 2023 the announcement date of the FY25 Result

The fair value of the EPS performance rights have been assessed as Scales' share price as at grant date less the present value of the dividends forecast to be paid prior to each vesting date.

The estimated fair value for each tranche of performance rights issued is amortised over the vesting period from grant date.

Vesting of performance rights also requires the employee to remain in employment with the Company during the performance period. The Company has expensed in the income statement nil (2022: nil) in relation to performance rights.

Foreign exchange translation reserve

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

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

D3. DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2023 $000's	2022 $000's
Final dividend paid - 13.00 (2022: 9.50) cents per share	18,452	13,444
Interim dividend declared - 4.25 (2022: 6.00) cents per share	6,041	8,503
	24,493	21,947

All above dividends were fully imputed.
The 2023 interim dividend was declared on 8 December 2023 and paid on 18 January 2024.

D4. IMPUTATION CREDIT ACCOUNT

	2023 $000's	2022 $000's
Balance at end of the year	8,651	18,057

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

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

D5. EARNINGS PER SHARE

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

	2023	2022
Profit attributable to equity holders of the Company ($000's):	5,235	19,412
Weighted average number of shares:		
Ordinary shares	141,831,545	141,413,787
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	116,268	302,534
Weighted average number of Ordinary Shares for diluted earnings per share	141,947,813	141,716,321
Earnings per share (cents):		
Basic - continuing	3.7	13.7
Diluted - continuing	3.7	13.7

E. FINANCIAL ASSETS AND LIABILITIES

IN THIS SECTION

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

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

ACCOUNTING POLICIES

Financial assets

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

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

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are not measured at cost or amortised cost. Gains and losses on a financial asset designated in this category and not part of a hedging relationship are recognised in profit or loss.

Financial assets measured at amortised cost

The Group's financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortised cost. Cash and cash equivalents, trade receivables and employee loans are classified in this category.

Impairment of financial assets

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

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

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

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

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

E. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial liabilities measured at amortised cost

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

Derivative financial instruments

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

Hedge accounting

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

Cash flow hedges

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

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

Hedges of net investments in foreign operations

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

E1. TRADE AND OTHER RECEIVABLES

	2023 $000's	2022 $000's
Trade receivables	25,589	36,170
Other receivables	3,637	1,964
Owing by entities accounted for using the equity method	1,628	924
Goods and services tax	3,175	3,044
	34,029	42,102

Credit risk management

The Group activities expose it to credit risk which refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments which potentially subject the Group to credit risk principally consist of cash and cash equivalents, trade and other receivables and advances. The Group performs credit evaluations on trade customers, obtains trade credit insurance as appropriate but generally does not require collateral. The Group continuously monitors the credit quality of its major receivables and does not anticipate non-performance of those customers. Cash and cash equivalents are placed with high credit quality financial institutions.

There is a significant concentration of credit risk with 5 customers who represent 35.95% (2022: 5 customers who represented 44.42%) of trade and other receivables.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Included in trade receivables are debtors which are past due at balance date, as payment was not received within one month, and for which provision for expected credit losses was not material as there has not been a significant change in credit quality and the amounts are still considered recoverable. No collateral is held over these balances although trade credit insurance cover is obtained in respect of some specific receivables. Interest is not charged on overdue debtors. The ageing of these past due trade receivables is:

1 month	5,159	4,998
2 months	2,049	1,288
More than 2 months	6,895	13,981
	14,103	20,267

There was an ECL provision of $0.4m as at 31 December 2023 (2022: nil), which is included within the Trade Receivables balance above.

E2. OTHER FINANCIAL ASSETS

Current:		
At fair value:		
Foreign currency derivative instruments	5,217	4,435
Interest rate swap contracts and forward rate agreements	772	503
	5,989	4,938

E2. OTHER FINANCIAL ASSETS (CONTINUED)

	2023 $000's	2022 $000's
Non-current:		
At fair value:		
Foreign currency derivative instruments	13,678	9,853
Interest rate swap contracts and forward rate agreements	262	1,004
Joint venture call option	171	-
Shares in unlisted companies	184	184
At amortised cost:		
Employee loans	2,103	1,628
Related party loans	12,679	2,842
	29,077	15,511

E3. TRADE AND OTHER PAYABLES

	2023 $000's	2022 $000's
Trade payables	10,224	16,127
Accruals	11,816	15,565
Employee entitlements	4,406	5,534
	26,446	37,226

E4. BORROWINGS

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

The Group replaced existing Multi-Option Facility Agreements with Coöperatieve Rabobank U.A., New Zealand Branch (Rabobank) and Westpac New Zealand Limited (Westpac) with new agreements on 11 November 2021. The existing facility agreement with ANZ bank New Zealand Limited (ANZ) was also replaced with a new agreement on 11 November 2021. The AUD and USD denominated loans are designated as a hedge of net investments in foreign operations.

	Facility limit		Undrawn facility	
	2023	2022	2023	2022
Facility	$000's	$000's	$000's	$000's
Rabobank term facility, NZD	1,000	1,000	-	-
Rabobank term facility, USD	11,635	11,635	-	-
Rabobank term facility, AUD	12,500	-	-	-
Rabobank seasonal facility, NZD	5,000	1,000	5,000	1,000
Westpac term facility, NZD	1,000	1,000	-	-
Westpac term facility, USD	11,635	11,635	-	-
Westpac term facility, AUD	12,500	-	-	-
Westpac seasonal facility, NZD	5,000	1,000	5,000	1,000
ANZ overdraft, NZD	1,000	1,000	1,000	1,000

E4. BORROWINGS (CONTINUED)

The floating interest rate is 4.24% to 6.87% (2022: 1.91% to 5.85%) and the term borrowing facility expiry date is 1 July 2025. Seasonal facilities presented as current borrowings are due for repayment within one year. The bank facilities are secured by a first ranking security interest granted by each of the Charging Group Companies over all its present and after-acquired property (including proceeds) and a first ranking security interest over any of the Charging Group Companies' present and future assets and undertakings which are not personal property. The bank facilities are also secured by first and exclusive registered mortgages over property comprising coolstores, orchards and industrial and commercial property owned by members of the Charging Group. Charging Group Companies as at 31 December 2023 are Scales Corporation Limited, Scales Holdings Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Fern Ridge Produce Limited, Geo.H.Scales Limited, Meateor Foods Limited, Scales, Logistics Limited and Meateor Group Limited.

	Term borrowings	
	2023	2022
	$000's	$000's
Seasonal (current) and term (non-current) borrowings:		
Opening balance	38,732	36,060
Drawdowns	27,306	-
Effect of foreign currency translation	(391)	2,672
	65,647	38,732

E5. OTHER FINANCIAL LIABILITIES

	2023	2022
	$000's	$000's
Current financial liabilities at fair value:		
Foreign currency derivative instruments	4,554	7,209
Put options	13,970	8,236
	18,524	15,445
Non-current financial liabilities at fair value:		
Foreign currency derivative instruments	6,699	11,802
Put options	-	1,586
	6,699	13,388

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

As part of the transaction, the Company entered into an agreement with the vendor whereby the vendor has an option to put a further 5% of total units in Shelby Group to Scales at a value based on a multiple of Shelby Group EBITDA. The obligation to acquire the ownership interest under the put option is included in other financial liabilities.

E6. INTEREST RATE RISK

Interest rate risk management

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

E6. INTEREST RATE RISK (CONTINUED)

Interest rate swap contracts and forward rate agreements

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

The Group's interest rate swap contracts and forward rate agreements are classified as Level 2 in the fair value hierarchy.

Details of interest rate swap contracts for the Group are:

	Fixed Interest Rate		Notional principal amount		Fair value	
	2023	2022	2023	2022	2023	2022
	%	%	$000's	$000's	$000's	$000's
Maturity Date						
Within 1 year	-	-	-	-	-	-
2-5 years	0.97	1.20	17,350	17,364	1,034	1,507
After 5 years	-	-	-	-	-	-
			17,350	17,364	1,034	1,507

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

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

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

	2023		2022	
	+1%	-1%	+1%	-1%
	$000's	$000's	$000's	$000's
Impact on net profit after tax	158	(158)	(131)	131
Impact on cash flow hedge reserve net of tax	246	(254)	337	(352)

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E7. FOREIGN CURRENCY RISK

Foreign currency risk management

Foreign currency risk is the risk that the value of the Group's assets and liabilities or revenues and expenses will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk as a result of normal trading transactions denominated in foreign currencies. The currencies in which the Group primarily trades are the Australian dollar, Euro, Canadian dollar, Great Britain pound and United States dollar, with the largest exposure being to the United States dollar.

Currency risk is managed by the natural hedge of foreign currency receivables and payables and the use of foreign currency derivative financial instruments. The fair value of foreign currency derivative financial instruments at the reporting date is determined on a discounted cash flow basis whereby future cash flows are estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Group's forward foreign exchange contracts and foreign exchange options are classified as Level 2 in the fair value hierarchy.

Details of foreign currency instruments at balance date for the Group are:

	2023		2022	
	Contract Value $000's	Fair Value $000's	Contract Value $000's	Fair Value $000's
Sale commitments forward foreign exchange contracts	371,325	5,888	422,810	(3,795)
Sale commitments foreign exchange options	185,240	1,754	158,067	(928)

These foreign currency instruments are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions. It is anticipated that the sales will take place during the 2024 to 2028 financial years at which stage the amount deferred in equity will be released into profit or loss.

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

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

E7. FOREIGN CURRENCY RISK (CONTINUED)

	2023		2022	
	+5%	-5%	+5%	-5%
	$000's	$000's	$000's	$000's
USD				
Impact on net profit after tax	(655)	724	(783)	865
Impact on cash flow hedge reserve net of tax	(15,408)	13,943	(15,976)	14,479
AUD				
Impact on net profit after tax	(4)	4	644	(1,082)
Impact on cash flow hedge reserve net of tax	-	-	176	176
EUR				
Impact on net profit after tax	(10)	11	(2)	2
Impact on cash flow hedge reserve net of tax	(1,886)	1,704	(2,143)	1,940
GBP				
Impact on net profit after tax	-	-	(7)	7
Impact on cash flow hedge reserve net of tax	(801)	720	(991)	898
CAD				
Impact on net profit after tax	-	-	-	-
Impact on cash flow hedge reserve net of tax	(216)	195	(383)	347

E8. CATEGORIES OF FINANCIAL INSTRUMENTS

	2023	2022
	$000's	$000's
Financial assets:		
Amortised cost	123,274	111,672
Derivative instruments in designated hedge accounting relationships	19,929	15,795
Fair value through profit or loss	355	184
	143,558	127,651
Financial liabilities:		
Amortised cost	98,134	86,829
Derivative instruments in designated hedge accounting relationships	11,253	19,011
Fair value through profit or loss	13,970	9,822
	123,357	115,662

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

E9. MATURITY PROFILE OF FINANCIAL LIABILITIES

Liquidity risk management

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

The following table detail the Group’s remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.
Foreign currency derivative liabilities are presented below at fair value.

	Within 3 months $000's	4 months to 1 year $000's	1-5 years $000's	Total $000's
2023				
Trade and other payables	26,446	-	-	26,446
Dividend declared	6,041	-	-	6,041
Put options	13,970	-	-	13,970
Borrowings	1,079	3,238	67,793	72,110
Foreign currency derivatives	747	3,807	6,699	11,253
	48,283	7,045	74,492	129,820
2022				
Trade and other payables	37,226	-	-	37,226
Dividend declared	8,503	-	-	8,503
Put options	8,236	-	1,586	9,822
Borrowings	570	2	39,885	40,457
Foreign currency derivatives	2,083	5,076	11,852	19,011
	56,618	5,078	53,323	115,019

F. GROUP STRUCTURE

IN THIS SECTION

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

F1. SUBSIDIARY COMPANIES

Subsidiary companies:	Principal activity	Country of incorporation	Holding 2023	Holding 2022	Balance date
Fern Ridge Produce Limited	Trading company	New Zealand	100%	100%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Longview Group Holdings Limited	Non trading company	New Zealand	100%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	100%	31 December
Meateor Foods Limited	Trading company	New Zealand	100%	100%	31 December
Meateor Group Limited	Holding company	New Zealand	100%	100%	31 December
Meateor US LLC	Holding company	United States	100%	100%	31 December
Mr Apple New Zealand Limited	Trading company	New Zealand	100%	100%	31 December
New Zealand Apple Limited	Trading company	New Zealand	100%	100%	31 December
Scales Employees Limited	Custodial company	New Zealand	100%	100%	31 December
Scales FI Group Holding Pty Ltd	Holding company	Australia	100%	100%	31 December
Scales Holdings Limited	Holding company	New Zealand	100%	100%	31 December
Scales Logistics Limited	Freight consolidator	New Zealand	100%	100%	31 December
Scales Logistics Australia Pty Ltd	Freight consolidator	Australia	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December
Shelby Cold Storage, LLC	Coldstore operator	United States	60%	60%	31 December
Shelby Exports, Inc	Non trading company	United States	60%	60%	31 December
Shelby Foods, LLC	Trading company	United States	60%	60%	31 December
Shelby JV LLC	Holding company	United States	60%	60%	31 December
Shelby Properties LLC	Non trading company	United States	60%	60%	31 December
Shelby Trucking LLC	Trading company	United States	60%	60%	31 December

Subsidiary companies are controlled by the Company. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

F2. NON-CONTROLLING INTERESTS

The following non-wholly owned subsidiaries of the Group have material non-controlling interests.

Proportion of equity interest held by non-controlling interests:

Subsidiary companies:	Country of incorporation and operation	Non-controlling holding 2023	Non-controlling holding 2022
Shelby JV LLC and its subsidiaries	United States	40%	40%

The summarised financial information in respect of the Group's subsidiary that have material non-controlling interests as at 31 December 2023, reflecting 100% of the underlying subsidiary's relevant figures, is set out below:

	2023 $000's	2022 $000's
Statement of financial position		
Current assets	31,013	29,827
Non-current assets	11,362	6,163
Current liabilities	(8,174)	(11,697)
Non-current liabilities	(140)	(435)
Net assets	34,060	23,858
Attributable to:		
Equity holders of the Company	20,436	14,315
Non-controlling interests	13,624	9,543

Note that a put option on 5% of the non-controlling interest shareholding is recognised as a financial liability, separate from non-controlling interest. Refer to note E5 for disclosures regarding the put option.

	2023 $000's	2022 $000's
Total dividends paid to non-controlling interests	15,312	17,313
Statement of comprehensive income		
Total revenue	214,624	220,425
Net profit for the year	48,647	47,155
Attributable to:		
Equity holders of the Company	29,188	28,293
Non-controlling interests	19,459	18,862
Statement of cash flows		
Net cash provided by operating activities	45,350	48,064
Net cash used in investing activities	(6,160)	(4,238)
Net cash used in financing activities	(38,346)	(43,344)
Net increase in net cash	844	482

G. OTHER

IN THIS SECTION

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

G1. CAPITAL COMMITMENTS

	2023 $000's	2022 $000's
Commitments entered into in respect of apple trees purchases as at balance date	1,540	2,530
Commitments entered into in respect of property, plant and equipment purchases as at balance date	469	371

G2. LEASES

The Group as a lessee

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

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

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

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

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

G2. LEASES (CONTINUED)

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

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

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

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

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

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

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

The lease modification in the current year relates to leases that were not renewed due to damage from Cyclone Gabrielle. The impact of not renewing these leases was the derecognition of the lease liability and right-of-use asset relating to these leases. The difference has been recorded as a gain on lease modification in the statement of comprehensive income.
In the 31 December 2022 year the modification related to the reassessment of renewal terms for leases extending longer than 10 years. The impact reduced the lease liability and right-of-use asset proportionately based on the reduction in the overall lease term assumed. The difference has been recorded as a loss on lease modification in the statement of comprehensive income

Right-of-use assets

	Land and buildings $000's	Plant and equipment $000's	Office equipment motor and vehicles $000's	Total $000's
Carrying Amount				
Balance at 1 January 2022	71,667	300	4,464	76,431
Additions	2,327	796	3,567	6,690
Lease modification	(24,989)	-	-	(24,989)
Depreciation expense	(6,332)	(390)	(2,365)	(9,087)
Balance at 31 December 2022	42,673	706	5,666	49,045
Additions	9,140	-	2,027	11,167
Lease modification	(1,230)	-	(699)	(1,929)
Depreciation expense	(6,331)	(412)	(1,968)	(8,711)
Balance at 31 December 2023	44,252	294	5,026	49,572

G2. LEASES (CONTINUED)

	2023 $000's	2022 $000's
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	8,711	9,087
(Gain) loss on lease modification	(177)	1,854
Interest expense on lease liabilities	3,144	2,953
Expense relating to short-term leases and low-value assets	1,990	2,218
Lease liabilities		
Current	10,963	10,925
Non-current	44,670	44,066
Maturity analysis (undiscounted cash flows)		
Year 1	10,963	10,932
Year 2	10,059	9,930
Year 3	9,489	9,065
Year 4	8,611	8,466
Year 5	6,698	7,578
Onwards	30,517	26,483
	76,337	72,454
Cash outflows for leases		
Interest on lease liabilities	3,144	2,953
Repayments of lease liabilities	8,420	8,281
Short-term leases and low-value asset leases	1,990	2,218
	13,554	13,452

G3. RELATED PARTY DISCLOSURES

Transactions with related parties

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

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	8,622	3,445
Share-based payments	295	574
Post-employment benefits	263	113
	9,180	4,132

During 2023, 1,120,541 (2022: 975,164) shares were on issue to key management personnel in accordance with the Share Scheme described in note D2.

In December 2023, 322,956 Performance Share Rights were issued to key management personnel in accordance with the PSR Scheme described in note D2.

G3. RELATED PARTY DISCLOSURES (CONTINUED)

	2023 $000's	2022 $000's
Transactions with equity accounted entities		
Revenue from sale of goods	4,079	2,428
Revenue from services	7,388	6,179
Loss on related party loans	2,044	-
Dividends and distributions received	750	1,875
Interest received	323	24
Materials and services received	(1,001)	(998)
Trade receivables at balance date	1,628	924
Purchase of property, plant and equipment	-	15
Related party loans	12,679	2,842

On 31 October 2022, Meateor Group Limited along with the other joint venture partners, agreed a financing arrangement with Meateor Australia Pty Limited for a term of 5 years. The total facility provided to Meateor Australia Pty Limited is AUD 4 million with the interest rate on the drawdown balances charged at 5% per annum.
As at 1 July 2023 the financing arrangement with Meateor Australia Pty Limited was amended to nil interest over the term of the loan. The loan balance has been recorded using the effective interest method.

On 9 August 2023 a financing arrangement was agreed with Esro Petfood B.V. The total facility available to Esro Petfood B.V. is EUR 15m. Interest is charged on each drawdown calculated quarterly at an interest rate of EURIBOR plus 4%.

G4. CONTINGENT LIABILITIES

There is no contingent liaibilities as at 31 December 2023 (2022: Nil).

G5. CYCLONE GABRIELLE

In February 2023, Cyclone Gabrielle struck the Hawke's Bay region. This impacted the Group's operations, in particular our orchards. The specific impact of the cyclone on the Group is disclosed below.

(a) Land, buildings and apple trees carried at fair value

Land and buildings shown at valuation were valued at fair value as at 31 December 2023 by independent registered valuers Added Valuation Limited and Logan Stone Limited. The valuations were arrived at by reference to market evidence of transaction prices for similar properties.
The impact of Cyclone Gabrielle has been considered as part of the current year valuations performed. Refer to note C1.

(b) Leases

Some leases of orchards damaged by Cyclone Gabrielle were not renewed at their renewal dates, prior to 30 June 2023.
The leased orchards not renewed included 41 hectares of planted apple trees.
The impact of not renewing these leases was the derecognition of the lease liability and right-of-use asset relating to these leases. The difference has been recorded as a gain on lease modification in the statement of comprehensive income.
Refer to note G2.

G5. CYCLONE GABRIELLE (CONTINUED)

(c) Plant and equipment impairment
Orchard plant, equipment and motor vehicles damaged or lost due to the flooding caused by Cyclone Gabrielle were fully impaired. The impairment has been recorded as an impairment of property plant and equipment in the statement of comprehensive income. Refer to note C1.

Any insurance proceeds relating to these assets are recognised when it is virtually certain that the related insurance claim is accepted and the value of the claim can be reliably measured. Accordingly, the Group recognised $4.8m relating to insurance proceeds. Insurance proceeds are included in other income in the statement of financial performance.
Refer to note B3.

(d) Goodwill
The directors have determined that there is an impairment of the Mr Apple CGU as at 30 June 2023, as the carrying value exceeded the recoverable amount. Refer to note C4.

(e) Government grants
The Group recognised a total of $1.98m government grant revenue related to Cyclone Gabrielle relief programs, included in other income. Refer to note B3.

G6. EVENTS OCCURRING AFTER BALANCE DATE

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

(2022: Amendment to the lending facility agreements with Rabobank and Westpac. The facility of AUD 25 million was drawn down 7 February 2023.

Cyclone Gabrielle resulted in flooding of some the Group's Hawke’s Bay orchards. The initial assessment is that 4 of 15 orchards were impacted. Of the four damaged orchards, three had extensive damage and one moderate. Further limited crop damage is also anticipated to the remaining orchards from the effects of the cyclone. Crop/fruit damage from the event is not covered by insurance. The 2023 harvest started prior to the cyclone and, with 3% picked, there is still a substantial proportion of the crop available and remaining to be harvested for export. Picking has recommenced, with cool-storage and packing activities back underway. Group packhouses and coolstores remain fully operational.
Other than disclosed above, the impact on unharvested agricultural produce, land and buildings, apple trees, or goodwill carrying values is not able to be quantified as at the financial statement authorisation date.
Group does not expect material operating impact on its other business units, which accounted for the majority of Group's operating profits for previous years.)

Deloitte.

Independent Auditor's Report

To the Shareholders of Scales Corporation Limited

Opinion

We have audited the consolidated financial statements of Scales Corporation Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements, on pages 4 to 56, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

Other than in our capacity as auditor and other assurance services, we have no relationship with or interests in the entity. These services have not impaired our independence as auditor of the Company and Group.

Audit materiality

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

We determined materiality for the Group financial statements as a whole to be $1.9m.

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Valuation of Unharvested Agricultural Produce Unharvested agricultural produce growing on bearer plants (apples), is measured at fair value less costs to sell in accordance with NZ IAS 41 *Agriculture*. The Group's unharvested agriculture produce was valued at $24.2 million at balance date as described in note C2. A revaluation loss of $0.8 million is recorded in profit or loss. Fair value less cost to sell is calculated by the Group using a discounted cash flow model. The model includes significant unobservable inputs and assumptions including, for each variety, the forecast production per hectare per annum, expected sales prices, and risk-adjusting discount rates, as well as costs to harvest and sell. The risk-adjusting discount rates take into account the risk of unknown adverse events, including weather events like Cyclone Gabrielle, that may affect crop, harvest and/or market conditions. The valuation of unharvested agricultural produce is considered to be a key audit matter due to the level of judgement required to determine the fair value less costs to sell.	Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the internal valuation model. Our procedures included, amongst others: • Holding discussions with management and considering market information to identify factors, including environmental/climate or market risks and impacts of Cyclone Gabrielle, that would impact the current crop valuation; • Assessing and challenging the reasonableness of the risk-adjusting discount rates; • Challenging the reasonableness of the key assumptions by comparing the forecast production, prices, and costs to harvest and sell for the current growing season, to the approved budgets for each orchard; • Assessing the historical accuracy of the Group's budget forecasts by comparing to the actual results for production per hectare and sales prices; • Engaging a Deloitte valuation specialist to review the valuation model; and • Checking the mechanical accuracy of the discounted cash flow model.

Valuation of Apple Trees
 	
As disclosed in note C1 the Group has apple trees valued at $25.4 million. A revaluation gain of $0.7 million has been recorded in other comprehensive income, with an impairment of $2.4 million recorded in profit and loss.
 	
The Group has a policy of recording apple trees at fair value with valuations performed with sufficient regularity that the carrying amount at the end of a reporting period does not differ materially from their fair value.
 	
The fair value of the apple trees are determined by an independent registered valuer on the basis of a discounted cash flow analysis of forecast income streams and costs from each orchard less the fair value of orchard land and buildings in combination with the comparative sales approach.
 	
By using the income approach, apple trees are independently valued on the basis of a discounted cash flow analysis of forecast income streams and costs from each orchard. The model uses a number of significant unobservable inputs, in particular: production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates.
 	
In the current year, a number of inputs were inherently impacted by Cyclone Gabrielle, including production levels, market activity and discount rates.
 	
Valuation of apple trees is considered to be a key audit matter due to the significance of the assets to the Group's consolidated statement of financial position, and the level of judgement involved in valuing the apple trees.
	Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the model.
	
	Our procedures included, amongst others:
	
	• Evaluating the Group's processes in respect of the independent valuation of the apple trees including its review of the valuation methodology and determination of the key valuation assumptions;
	• Reviewed managements assessment of any further trees that require impairment due to the impacts of Cyclone Gabrielle;
	• Engaging a Deloitte valuation specialist to consider whether the valuation methods applied and the discount rate used in the orchard valuation calculations were reasonable;
	• Assessing the competence, objectivity and integrity of the Group's independent registered valuer. This included assessing the valuer's professional qualifications, experience and independence. It also included meeting with the valuer to understand the valuation process adopted and to identify and challenge the critical judgement areas in the valuation;
	• Assessing the valuation methodology for consistency with the prior year valuation and determining whether any changes to the methodology were appropriate;
	• Checking the mechanical accuracy of the discounted cash flow models on a sample basis; and
	• Challenging the reasonableness of the key assumptions by comparing them to the prior year valuation, the Group's internal data and current market evidence. We focused on the assumptions relating to production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates;
	  ○ We tested estimated production levels per hectare by comparing orchard hectares in production with the prior year valuation. We compared the production levels per hectare to internal production data for the season;
	  ○ We tested the orchard gate returns by comparing these to actual sales returns received during the previous year;
	  ○ We challenged orchard costs by comparing orchard costs to the prior year valuation and actual costs incurred;
	  ○ We challenged the discount rates by comparing them with prior year valuation discount rates and considering the risks associated with the orchards;

Key audit matter	How our audit addressed the key audit matter
	and ○ We challenged the valuer on how the impacts (if any) of Cyclone Gabrielle have been incorporated into the valuation.
Group component auditor oversight Scales Corporation has continued to grow its Global Proteins segment including through its recent investment in Australian based FI Group Holdings Pty Limited, ANZ Exports Pty Limited and Meateor Australia Pty Limited (together the 'Fayman entities') in October 2022. As disclosed in note C3, 30 June 2023 reflects the first full year 12-month equity share of profits from the Fayman entities contributing $7.1 million (24%) to the Group's profit before tax of $29.8 million. The equity accounted share of profits is a significant portion of the Group's profits. In addition to the impact on the Group's profit we note the following: • first time engagement for the Fayman entities with new component audit firm based in Australia; • the Fayman entities have different balance dates to Group; and • first time adoption of NZ IFRS for the Fayman entities, The level of audit effort has increased to address the matters noted above. Given the significance of the equity accounted results of the Fayman entities, and the increased level of audit effort in, obtaining sufficient audit evidence over the new Fayman entities including, Group component auditor oversight, this has been considered to be a key audit matter.	Our procedures focused on having appropriate involvement in the component auditor's risk assessment for the Fayman entities, including involvement in the design of specific audit procedures, and oversight of audit evidence to support conclusions. We performed the following: • Performed a Group risk and component materiality assessment to determine the risks and scope of procedures to be performed for the Fayman entities; • Determined component specific materiality for the Fayman entities and based on the nature, size and risks associated with the Fayman entities assigned a level of significance for the component; • Identified group specific risks associated to the Fayman entities, including the extent of audit procedures, as a result of the component significance; • Communicated to the Fayman entities audit team significant and other risks identified and the extent and nature of audit procedures to be performed; • Held discussions throughout the audit process with Fayman entities audit team to oversee the work performed, conclusions reached, including understanding any key judgements and findings relevant to the Group audit; • Performed a review of the Fayman entities auditor's work performed as part of their planning activities and the final audit procedures in accordance with the referral instructions; • Held discussions with Fayman entities management; and • Performed a site visit to Melbourne where the Fayman entities are located, meeting with local management and inspecting the new manufacturing plant facilities. At the same time, we met with the auditors of the Fayman entities and assessed the auditor's competency and skills to rely on evidence gathered on our behalf to support the Group opinion. The component auditor was required to provide written confirmation to the group audit team explaining work performed, the results of that work as well as key documents supporting significant findings or observations. We performed an assessment of the appropriateness of their procedures and conclusions by reviewing work completed.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report, and the Climate Related Disclosure, which is expected to be made available to us after the date of the audit report.

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

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

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

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Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Nicole Dring, Partner
for Deloitte Limited
Christchurch, New Zealand
21 February 2024