

Scales Corporation Limited

Condensed Consolidated Interim Financial Statements
for the six months ended 30 June 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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Auditor

Deloitte Limited

Level 4

151 Cambridge Terrace

Christchurch 8013

Bankers

ANZ Bank New Zealand Limited

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ANZ Centre

267 High Street

Christchurch 8011

Coöperatieve Rabobank U.A., New Zealand Branch

Level 4

32 Hood street

Hamilton 3204

Westpac New Zealand Limited

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The Terrace

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Christchurch 8011

Solicitors

Anthony Harper

Level 9

Anthony Harper Tower

62 Worcester Boulevard

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23 Albert Street

Auckland 1010

Corporate Advisor

Maher & Associates

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Auckland 1010

Share Registry

Computershare Investor Services Limited

Level 2

159 Hurstmere Road

Takapuna

North Shore City

Auckland 0622

Scales Corporation Limited

Consolidated statement of comprehensive income for the six months ended 30 June 2023

		Unaudited		Audited
		Six months ended		Year ended
		30 June	30 June	31 December
		2023	2022	2022
	Note	\$000's	\$000's	\$000's
Revenue	5	309,368	309,308	619,173
Cost of sales		(242,972)	(228,710)	(492,547)
		<u>66,396</u>	<u>80,598</u>	<u>126,626</u>
Administration and operating expenses		(31,415)	(25,496)	(53,003)
Impairment of property, plant and equipment	12	(4,015)	-	(3,729)
Impairment of goodwill	12	(8,531)	-	-
Share of profit of entities accounted for using the equity method		2,794	1,293	4,624
Other income	12	5,798	27	67
Other losses		(554)	-	(6,069)
EBITDA		<u>30,473</u>	<u>56,422</u>	<u>68,516</u>
Amortisation		(246)	(162)	(379)
Depreciation		(5,283)	(5,019)	(10,220)
Depreciation of right-of-use asset		(4,484)	(4,471)	(9,087)
EBIT		<u>20,460</u>	<u>46,770</u>	<u>48,830</u>
Finance revenue		879	472	1,045
Finance cost		(1,532)	(502)	(1,284)
Finance cost of lease liability		(1,515)	(1,447)	(2,953)
PROFIT BEFORE INCOME TAX EXPENSE		<u>18,292</u>	<u>45,293</u>	<u>45,638</u>
Income tax expense		(4,017)	(10,211)	(7,407)
PROFIT FOR THE PERIOD		<u>14,275</u>	<u>35,082</u>	<u>38,231</u>
Profit for the period is attributable to:				
Equity holders of the Company		3,896	26,059	19,412
Non-controlling interests		10,379	9,023	18,819
		<u>14,275</u>	<u>35,082</u>	<u>38,231</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:				
Basic earnings per share (cents)	8	2.7	18.5	13.7
Diluted earnings per share (cents)	8	2.7	18.4	13.7

The notes to the financial statements on pages 10 to 18 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of comprehensive income for the six months ended 30 June 2023 (continued)

	Unaudited		Audited
	Six months ended		Year ended
	30 June	30 June	31 December
	2023	2022	2022
	\$000's	\$000's	\$000's
PROFIT FOR THE PERIOD	14,275	35,082	38,231
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Loss on cash flow hedges	(8,987)	(24,203)	(10,704)
Income tax relating to cash flow hedges	2,516	6,777	2,997
Share of other comprehensive income of joint ventures	(690)	(506)	817
Income tax relating to share of other comprehensive income of joint ventures	160	142	(229)
Foreign exchange gain on translating foreign operations	1,069	1,289	330
	(5,932)	(16,501)	(6,789)
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings	(13,416)	-	10,355
Income tax relating to buildings	671	-	(331)
Revaluation of apple trees	(1,818)	-	(3,873)
Income tax relating to apple trees	509	-	1,084
Remeasurement of net defined benefit liability	-	-	372
Income tax relating to remeasurement of net defined benefit liability	-	-	(44)
	(14,054)	-	7,563
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(19,986)	(16,501)	774
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(5,711)	18,581	39,005
Total comprehensive income for the period attributable to:			
Equity holders of the Company	(16,090)	9,558	20,037
Non-controlling interests	10,379	9,023	18,968
	(5,711)	18,581	39,005

The notes to the financial statements on pages 10 to 18 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of changes in equity for the six months ended 30 June 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
Unaudited						
Six months ended 30 June 2023						
	101,975	92,590	189,875	384,440	7,374	391,814
	-	-	3,896	3,896	10,379	14,275
	-	(19,986)	-	(19,986)	-	(19,986)
	-	(19,986)	3,896	(16,090)	10,379	(5,711)
	-	248	-	248	-	248
	96	-	-	96	-	96
	1,374	(499)	(145)	730	-	730
6	-	-	(18,451)	(18,451)	(6,407)	(24,858)
	103,445	72,353	175,175	350,973	11,346	362,319
Unaudited						
Six months ended 30 June 2022						
	99,588	92,160	192,644	384,392	5,922	390,314
	-	-	26,059	26,059	9,023	35,082
	-	(16,501)	-	(16,501)	-	(16,501)
	-	(16,501)	26,059	9,558	9,023	18,581
	-	289	-	289	-	289
	116	-	-	116	-	116
	1,236	(584)	(128)	524	-	524
6	-	-	(13,445)	(13,445)	(7,741)	(21,186)
	100,940	75,364	205,130	381,434	7,204	388,638
Audited						
Year ended 31 December 2022						
	99,588	92,160	192,644	384,392	5,922	390,314
	-	-	19,412	19,412	18,819	38,231
	-	625	-	625	149	774
	-	625	19,412	20,037	18,968	39,005
	-	609	-	609	-	609
	116	-	-	116	-	116
	2,271	(804)	(234)	1,233	-	1,233
6	-	-	(21,947)	(21,947)	(17,516)	(39,463)
	101,975	92,590	189,875	384,440	7,374	391,814

The notes to the financial statements on pages 10 to 18 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of financial position as at 30 June 2023

	Note	Unaudited		Audited
		30 June 2023 \$000's	Six months ended 30 June 2022 \$000's	Year ended 31 December 2022 \$000's
EQUITY				
Share capital		103,445	100,940	101,975
Reserves	7	72,353	75,364	92,590
Retained earnings		175,175	205,130	189,875
Equity attributable to Scales Corporation Limited shareholders		350,973	381,434	384,440
Equity attributable to non-controlling interests		11,346	7,204	7,374
TOTAL EQUITY		362,319	388,638	391,814
CURRENT ASSETS				
Cash and bank balances		37,733	36,264	68,144
Term deposits		-	20,000	-
Trade and other receivables		97,315	101,568	42,102
Current tax assets		528	-	5,334
Other financial assets	9	2,383	4,088	4,938
Agricultural produce		62,709	85,363	25,149
Inventories		46,703	38,727	42,647
Prepayments		5,492	3,532	4,783
TOTAL CURRENT ASSETS		252,863	289,542	193,097
NON-CURRENT ASSETS				
Property, plant and equipment		203,090	214,497	221,204
Investments accounted for using the equity method		56,893	26,338	54,743
Goodwill		38,251	46,098	45,527
Other financial assets	9	15,526	12,374	15,511
Computer software		1,184	670	1,332
Right-of-use asset		51,893	74,935	49,044
TOTAL NON-CURRENT ASSETS		366,837	374,912	387,361
TOTAL ASSETS		619,700	664,454	580,458
CURRENT LIABILITIES				
Bank overdrafts		-	-	2,368
Trade and other payables		74,383	85,265	37,226
Dividend declared	6	13,491	13,445	8,503
Current tax liabilities		2,922	8,728	-
Other financial liabilities	9	20,309	15,958	15,445
Lease liability		10,788	10,097	10,925
TOTAL CURRENT LIABILITIES		121,893	133,493	74,467
NON-CURRENT LIABILITIES				
Borrowings		67,535	39,448	38,732
Deferred tax liabilities		5,911	9,386	17,821
Defined benefit plan net liability		178	470	170
Other financial liabilities	9	14,909	24,628	13,388
Lease liability		46,955	68,391	44,066
TOTAL NON-CURRENT LIABILITIES		135,488	142,323	114,177
TOTAL LIABILITIES		257,381	275,816	188,644
NET ASSETS		362,319	388,638	391,814

The notes to the financial statements on pages 10 to 18 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of cash flows for the six months ended 30 June 2023

	Unaudited		Audited
	Six months ended 30 June 2023	30 June 2022	Year ended 31 December 2022
Note	\$000's	\$000's	\$000's
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Receipts from customers	260,660	240,217	606,293
Government grants received	1,388	-	-
Dividends and distributions received	500	500	1,876
Interest received	768	705	1,393
	<u>263,316</u>	<u>241,422</u>	<u>609,562</u>
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees	(279,741)	(261,543)	(545,477)
Interest paid	(3,047)	(1,949)	(4,237)
Income tax paid	(4,424)	(8,496)	(14,983)
	<u>(287,212)</u>	<u>(271,988)</u>	<u>(564,697)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(23,896)</u>	<u>(30,566)</u>	<u>44,865</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from matured term deposits	-	65,000	85,000
Advances repaid	156	41	112
Sale of property, plant and equipment	-	3	161
	<u>156</u>	<u>65,044</u>	<u>85,273</u>
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment	(4,795)	(5,256)	(14,592)
Purchase of computer software	(98)	(115)	(994)
Purchase of non-controlling shareholding	-	(2,180)	(2,180)
Acquisition of interest in joint ventures	-	-	(25,968)
Advances to joint ventures	(2,745)	-	(2,818)
	<u>(7,638)</u>	<u>(7,551)</u>	<u>(46,552)</u>
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(7,482)</u>	<u>57,493</u>	<u>38,721</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from seasonal facility borrowings	27,306	-	-
Treasury stock sold	96	116	116
	<u>27,402</u>	<u>116</u>	<u>116</u>
<i>Cash was applied to:</i>			
Dividends paid	(13,463)	(13,419)	(26,863)
Dividends paid to non-controlling interests	(6,407)	(7,741)	(17,516)
Repayments of lease liabilities	(4,419)	(4,205)	(8,281)
	<u>(24,289)</u>	<u>(25,365)</u>	<u>(52,660)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>3,113</u>	<u>(25,249)</u>	<u>(52,544)</u>
NET (DECREASE) INCREASE IN NET CASH	<u>(28,265)</u>	<u>1,678</u>	<u>31,042</u>
Net foreign exchange difference	222	1,384	1,532
Cash and cash equivalents at the beginning of the period	65,776	33,202	33,202
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>37,733</u>	<u>36,264</u>	<u>65,776</u>
Represented by:			
Cash and bank balances	37,733	36,264	68,144
Bank overdrafts	-	-	(2,368)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>37,733</u>	<u>36,264</u>	<u>65,776</u>

The notes to the financial statements on pages 10 to 18 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of cash flows for the six months ended 30 June 2023 (continued)

	Note	Unaudited		Audited
		Six months ended 30 June 2023 \$000's	30 June 2022 \$000's	Year ended 31 December 2022 \$000's
NET CASH GENERATED BY OPERATING ACTIVITIES				
Reconciliation of profit for the year to net cash generated by operating activities:				
Profit for the year		14,275	35,082	38,231
<i>Non-cash items:</i>				
Hedging instruments		2,361	157	192
Loss on hedge instruments recycled to profit or loss		-	2,856	-
Share-based payments		248	289	609
Change in gross liability on put options		554	(24)	4,215
(Gain) loss on lease modification		(162)	-	1,854
Impairment (reversal of impairment) on revaluation		4,015	-	3,729
Impairment of goodwill		8,531	-	-
Share of equity accounted results		(2,794)	(1,293)	(4,624)
Amortisation		246	162	379
Depreciation (including on right-of-use asset)		9,767	9,490	19,307
Gain on disposal of property, plant and equipment		(3,159)	(3)	(66)
Deferred tax		(8,159)	(6,801)	(1,774)
Interest capitalised into loans		(111)	-	(24)
JV purchase price receivable		(1,089)	-	-
<i>Operating cash receipts not included in profit for the period:</i>				
Dividends received from equity accounted entities		500	500	1,875
<i>Changes in net assets and liabilities:</i>				
Trade and other receivables		(50,994)	(71,886)	(12,812)
Agricultural produce		(37,560)	(60,802)	(588)
Inventories		(3,739)	(8,579)	(12,553)
Prepayments		(700)	539	(712)
Trade and other payables		36,322	61,231	13,429
Current tax assets and liabilities		7,752	8,516	(5,802)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		(23,896)	(30,566)	44,865

For and on behalf of the Board of Directors who authorised the issue of these interim financial statements on 22 August 2023.

Mike Petersen, Chair

Andy Borland, Managing Director

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

1. GENERAL INFORMATION

Scales Corporation Limited (the "Company" or "Scales") 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 and the Financial Reporting Act 2013. The Group consists of Scales, 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.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("GAAP"). They comply with the New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) Interim Financial Reporting and International Accounting Standard 34 (IAS 34) Interim Financial Reporting, as applicable for-profit orientated entities. The significant accounting policies applied by the Group during the period have been applied consistently to all periods presented in these condensed consolidated interim financial statements. These financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report for the year ended 31 December 2022.

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

3. SEGMENT INFORMATION

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

Change in segments:

The Food Ingredients segment name has been changed to Global Proteins, which includes the new entities acquired during the year ended 31 December 2022 and shifting Profruit (2006) Limited to the Horticulture segment. This impacts 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 prior year figures have been restated to reflect this change in segments.

The Group's operations comprise the following operating segments:

Global Proteins: processing and marketing of proteins such as petfood 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) and ANZ Exports Pty Limited.

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.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

3. SEGMENT INFORMATION (CONTINUED)

	Global Proteins \$000's	Horticulture \$000's	Logistics \$000's	Other \$000's	Eliminations \$000's	Total \$000's
Unaudited						
Six months ended 30 June 2023						
Total segment revenue	151,128	122,551	54,363	1,802	(20,476)	309,368
Inter-segment revenue	-	-	(19,157)	(1,319)	20,476	-
Revenue from external customers	151,128	122,551	35,206	483	-	309,368
Segment profit (loss) before income tax	30,277	(2,093)	2,273	(12,165)	-	18,292
Segment assets	179,903	405,809	22,026	11,962	-	619,700
Segment liabilities	30,081	139,721	11,945	75,634	-	257,381
Unaudited						
Six months ended 30 June 2022						
Total segment revenue	151,692	117,339	67,885	1,332	(28,940)	309,308
Inter-segment revenue	-	-	(27,409)	(1,531)	28,940	-
Revenue from external customers	151,692	117,339	40,476	(199)	-	309,308
Segment profit (loss) before income tax	29,525	15,709	3,490	(3,431)	-	45,293
Segment assets	124,391	467,824	28,708	43,531	-	664,454
Segment liabilities	34,653	197,583	17,486	26,094	-	275,816
Audited						
Year ended 31 December 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
Segment profit (loss) before income tax	58,099	(10,413)	5,544	(7,592)	-	45,638
Segment assets	169,018	345,096	29,032	37,312	-	580,458
Segment liabilities	46,398	107,850	15,967	18,429	-	188,644

4. SEASONALITY OF BUSINESS

The Horticulture business segment is subject to seasonal fluctuation. The apple crop has been picked, with packing and the export programme well under way as at 30 June. At 30 June the harvested crop held in inventory is valued at fair value less estimated costs to sell. At 31 December the unharvested crop is valued at fair value less estimated costs to sell. Both the harvested crop at 30 June and the unharvested crop at 31 December are included in agricultural produce.

Higher volumes are processed through the petfood ingredients plants in the first half of the year due to the seasonal nature of the meat industry. There is greater utilisation of logistics services over the first half of the year as seasonal products are shipped to export markets.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

5. REVENUE

	Unaudited		Audited
	Six months ended		Year ended
	30 June	30 June	31 December
	2023	2022	2022
	\$000's	\$000's	\$000's
By nature:			
Revenue from the sale of goods	264,884	256,586	525,298
Revenue from the rendering of services	46,172	50,874	88,990
Fees and commission	(5)	(5)	13
Net foreign exchange (loss) gain	(4,708)	(1,565)	(544)
Rental revenue	3,025	3,418	5,416
	<u>309,368</u>	<u>309,308</u>	<u>619,173</u>
By segment and type:			
Horticulture - sale of agricultural produce	112,726	107,652	214,084
Horticulture - agricultural produce related services	6,805	6,274	9,363
Horticulture - other	3,020	3,413	5,407
Global Proteins - sale of petfood ingredients	146,923	147,343	310,517
Global Proteins - other	4,205	4,349	9,406
Logistics services	35,206	40,476	70,444
Other	483	(199)	(48)
	<u>309,368</u>	<u>309,308</u>	<u>619,173</u>

6. DIVIDENDS

During the six months ended 30 June 2023 the Company paid interim dividends totalling 9.5 cents per share and declared a final dividend of 9.5 cents per share in respect of the year ended 31 December 2022. This final dividend was paid on 7 July 2023.

During the six months ended 30 June 2022 the Company paid an interim dividend of 9.5 cents per share and declared a final dividend of 9.5 cents per share in respect of the year ended 31 December 2021. This final dividend was paid on 8 July 2022.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

7. RESERVES

	Revaluation \$000's	Cash flow hedge \$000's	Share of joint ventures \$000's	Equity- settled employee benefits \$000's	Foreign exchange translation \$000's	Pension plan reserve \$000's	Total reserves \$000's
Unaudited							
Six months ended 30 June 2023							
At 1 January 2023	93,545	(2,686)	518	1,082	162	(31)	92,590
Other comprehensive (loss) income	(14,054)	(6,471)	(530)	-	1,069	-	(19,986)
Recognition of share-based payments	-	-	-	248	-	-	248
Shares fully vested	-	-	-	(499)	-	-	(499)
Balance at 30 June 2023	79,491	(9,157)	(12)	831	1,231	(31)	72,353

Unaudited

Six months ended 30 June 2022							
At 1 January 2022	86,310	5,021	(70)	1,277	(168)	(210)	92,160
Other comprehensive income (loss)	-	(17,426)	(364)	-	1,289	-	(16,501)
Recognition of share-based payments	-	-	-	289	-	-	289
Shares fully vested	-	-	-	(584)	-	-	(584)
Balance at 30 June 2022	86,310	(12,405)	(434)	982	1,121	(210)	75,364

Audited

Year ended 31 December 2022							
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
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

8. EARNINGS PER SHARE

	Unaudited		Audited
	Six months ended	30 June	Year ended
	30 June	30 June	31 December
	2023	2022	2022
Profit attributable to equity holders of the Company (\$000's):	3,896	26,059	19,412
Weighted average number of shares:			
Ordinary shares	141,729,183	140,900,047	141,413,787
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	-	351,554	302,534
Weighted average number of ordinary shares for diluted earnings per share	141,729,183	141,251,601	141,716,321
Earnings per share (cents):			
Basic	2.7	18.5	13.7
Diluted	2.7	18.4	13.7

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

9. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

	Unaudited		Audited
	Six months ended		Year ended
	30 June	30 June	31 December
	2023	2022	2022
	\$000's	\$000's	\$000's
Current financial assets at fair value:			
Foreign currency derivative instruments	1,644	3,912	4,435
Interest rate swap contracts and forward rate agreements	739	176	503
	<u>2,383</u>	<u>4,088</u>	<u>4,938</u>
Non-current financial assets:			
<i>At fair value:</i>			
Foreign currency derivative instruments	6,583	10,259	9,853
Interest rate swap contracts and forward rate agreements	793	941	1,004
Shares in unlisted companies	184	184	184
<i>At amortised cost:</i>			
Employee loans	2,202	990	1,628
Related party loans	5,764	-	2,842
	<u>15,526</u>	<u>12,374</u>	<u>15,511</u>
Current financial liabilities at fair value:			
Foreign currency derivative instruments	9,497	11,069	7,209
Put option	10,812	4,889	8,236
	<u>20,309</u>	<u>15,958</u>	<u>15,445</u>
Non-current financial liabilities at fair value:			
Foreign currency derivative instruments	14,909	23,840	11,802
Put option	-	788	1,586
	<u>14,909</u>	<u>24,628</u>	<u>13,388</u>

Foreign currency derivative instruments

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

These foreign currency instruments are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from movements in foreign currency exchange rates on anticipated future transactions. It is anticipated that the sales will take place during the 2023 to 2028 financial years at which stage the amount deferred in equity will be released into profit or loss.

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Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

9. FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES (CONTINUED)

Interest rate swap contracts and forward rate agreements

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

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

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

10. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

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

	Unaudited		Audited
	Six months ended		Year ended
	30 June	30 June	31 December
	2023	2022	2022
	\$000's	\$000's	\$000's

(b) Key management personnel remuneration

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

Short-term employee benefits and directors' fees	2,403	1,764	3,445
Share-based payments	133	386	574
Post-employment benefits	75	57	113
	<u>2,611</u>	<u>2,207</u>	<u>4,132</u>

(c) Transactions with equity accounted entities

Revenue from sale of goods	2,052	1,235	2,428
Revenue from services	3,973	2,897	6,179
Dividends and distributions received	500	500	1,875
Interest received	111	-	24
Materials and services received	(479)	(311)	(998)
Trade receivables at balance date	267	584	924
Purchase of property, plant and equipment	-	-	15
Related party loans	5,764	-	2,842

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

11. CAPITAL COMMITMENTS

	Unaudited		Audited
	Six months ended	Six months ended	Year ended
	30 June	30 June	31 December
	2023	2022	2022
	\$000's	\$000's	\$000's
Commitments entered into in respect of apple trees	1,830	3,180	2,530
Commitments entered into in respect of property, plant and equipment	363	441	371
	<u>2,193</u>	<u>3,621</u>	<u>2,901</u>

12. CYCLONE GABRIELLE IMPACT

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 2022 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.

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 valuations.

Due largely to the impacts of Cyclone Gabrielle on Hawke's Bay, no additional market-observable sales data was available subsequent to the valuations carried out as at 31 December 2022. The Group obtained advice from independent valuers which included market sentiment, changes in rental rates and income capitalisation rates.

As at 30 June 2023, an estimated range of reduced orchard values of 10% to 15% was determined based on market sentiment, changes in orchard land rental rates and increased interest rates. The decrease in valuation of 12.5%, reflecting the midpoint of the indicated range, was adopted and applied to each orchard's 31 December 2022 valuation, after considering any specific impairment of assets.

An estimated range of changes in coolstore and packhouse values of +1% to -10% was determined based on market sentiment, current rental rates and increased interest rates. The weighted average decrease in valuation of 4.4%, reflecting the midpoint of the indicated range, was adopted and applied to each coolstore and packhouse's 31 December 2022 valuation.

(b) Leases

Some leases of orchards damaged by Cyclone Gabrielle were not renewed, at their renewal dates, prior to 30 June 2023. 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.

(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.

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 a \$3.2m insurance receivable as at 30 June 2023. Insurance proceeds are included in other income in the statement of financial performance.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

12. CYCLONE GABRIELLE IMPACT (CONTINUED)

(d) Goodwill

The directors have determined that there is an impairment of the Mr Apple CGU ("cash generating unit") as at 30 June 2023, as the carrying value exceeded the recoverable amount.

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	<u>\$000's</u>
Recoverable amount	211,978
Carrying value	220,509
Impairment	(8,531)

Key assumptions:

Post-tax discount rate – 9.02%

Terminal growth rate beyond year 5 – 2.10%

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:

	<u>\$000's</u>	<u>\$000's</u>
	+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.

(e) Government grants

The Group recognised a total of \$1.4m government grant revenue related to cyclone Gabrielle relief programs, included in other income.

Scales Corporation Limited

Notes to the condensed consolidated interim financial statements for the six months ended 30 June 2023

13. EVENTS OCCURRING AFTER BALANCE DATE

Receivable in respect of Fayman JV acquisition

The Group has accrued a net \$1.1m receivable in respect of the purchase price for the shareholdings in FI Group Holding Pty Limited and ANZ Exports Pty Limited that the Group acquired in October 2022. This represents a purchase price adjustment as defined in the sale and purchase agreement that was conditional on actual financial performance of the acquired companies, including collection of overdue trade debtors outstanding as of the acquisition date.

Investment in European petfood ingredients

The Group subscribed for a 50% shareholding in a newly established petfood ingredient processing operation, Esro Petfood BV on 10 August 2023. This joint venture will be based in Europe alongside Esro Food Group ("Esro"), who will hold the other 50% shareholding. Esro is a key player in Europe's animal by-product processing, with factories in The Netherlands, Belgium and Spain.

The Group is providing lending facilities to the joint venture company for a combined €15 million to fund capital expenditure for two petfood ingredient processing plants in Europe.

Other

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