

Scales Corporation Limited

consolidated financial statements

for the year ended 31 December 2021

Scales Corporation Limited
Contents

Directory	3
Consolidated statement of comprehensive income	4
Consolidated statement of changes in equity	6
Consolidated statement of financial position	7
Consolidated statement of cash flows	8
Notes to the consolidated financial statements	10
Independent auditor's report	45

Scales Corporation Limited

Directory

Board of Directors

Tim Goodacre (Chair)
Andrew Borland (Managing Director)
Nick Harris
Mark Hutton
Alan Isaac
Lai Po Sing, Tomakin (resigned on 13 September 2021)
Nadine Tunley
Sun Qiang (Alex) (appointed on 13 September 2021,
resigned on 14 December 2021)
Qi Xin (appointed on 15 December 2021)

Audit and Risk Management Committee

Alan Isaac (Chair)
Nick Harris
Mark Hutton

Nominations and Remuneration Committee

Mark Hutton (Chair)
Tim Goodacre

Finance and Treasury Committee

Mark Hutton (Chair)
Andrew Borland

Health & Safety and Sustainability Committee

Nick Harris (Chair)
Andrew Borland
Nadine Tunley

Registered Office

52 Cashel Street
Christchurch 8013
New Zealand

Postal Address

PO Box 1590
Christchurch 8140
New Zealand

Telephone

+64 3 379 7720

Website

www.scalescorporation.co.nz

Auditor

Deloitte Limited
Level 4
151 Cambridge Terrace
Christchurch 8013

Bankers

ANZ Bank New Zealand Limited
Level 3
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

Level 4
The Terrace
83 Cashel Street
Christchurch 8011

Solicitors

Anthony Harper
Level 9
Anthony Harper Tower
62 Worcester Boulevard
Christchurch 8013

Chapman Tripp

15 Customs Street West
Auckland 1010

Corporate Advisor

Maher & Associates
17 Albert Street
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 year ended 31 December 2021

	Note	2021 \$000's	2020 \$000's
Revenue	B1	514,551	470,709
Cost of sales	B2	(400,663)	(366,800)
		<u>113,888</u>	<u>103,909</u>
Administration and operating expenses	B2	(47,241)	(44,382)
Reversal of impairment (impairment) on revaluation	C1	1,650	(4,311)
Share of profit of entities accounted for using the equity method	C3	3,162	2,224
Other income	B3	6,022	1,645
Other losses	B3	(5,862)	(2,345)
EBITDA		<u>71,619</u>	<u>56,740</u>
Amortisation		(342)	(584)
Depreciation	C1	(10,443)	(10,294)
Depreciation of right-of-use asset	G2	(8,760)	(8,301)
EBIT		<u>52,074</u>	<u>37,561</u>
Finance revenue		1,203	2,584
Finance cost	B4	(1,786)	(1,915)
Finance cost of lease liability	G2	(2,964)	(2,981)
PROFIT BEFORE INCOME TAX EXPENSE		<u>48,527</u>	<u>35,249</u>
Income tax expense	B5	(11,577)	(8,668)
PROFIT FOR THE YEAR		<u>36,950</u>	<u>26,581</u>
Profit for the year is attributable to:			
Equity holders of the Company		26,925	21,025
Non-controlling interests		10,025	5,556
		<u>36,950</u>	<u>26,581</u>

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:

Basic earnings per share (cents)	D5	19.1	15.0
Diluted earnings per share (cents)	D5	19.1	14.9

The notes to the financial statements on pages 10 to 44 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of comprehensive income for the year ended 31 December 2021 (continued)

	Note	2021 \$000's	2020 \$000's
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
(Loss) gain on cash flow hedges		(20,730)	20,861
Income tax relating to cash flow hedges		5,804	(5,841)
Share of other comprehensive income of joint ventures	C3	(1,015)	708
Income tax relating to share of other comprehensive income of joint ventures		284	(198)
Foreign exchange gain (loss) on translating foreign operations		692	(784)
		<u>(14,965)</u>	<u>14,746</u>
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		22,362	9,133
Income tax relating to buildings		(1,647)	(448)
Revaluation of apple trees		3,048	(31)
Income tax relating to apple trees		(854)	9
Remeasurement of net defined benefit liability		318	(440)
Income tax relating to remeasurement of net defined benefit liability		-	67
		<u>23,227</u>	<u>8,290</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>8,262</u>	<u>23,036</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>45,212</u>	<u>49,617</u>
Total comprehensive income for the year attributable to:			
Equity holders of the Company		35,060	44,374
Non-controlling interests		10,152	5,243
		<u>45,212</u>	<u>49,617</u>

The notes to the financial statements on pages 10 to 44 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 2021

	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 2020		95,273	62,511	197,230	355,014	3,989	359,003
Profit for the year		-	-	21,025	21,025	5,556	26,581
Other comprehensive income for the year		-	23,349	-	23,349	(313)	23,036
Total comprehensive income for the year		-	23,349	21,025	44,374	5,243	49,617
Reclassification of revaluation reserve	D2	-	1,093	(1,093)	-	-	-
Reclassification of pension reserve	D2	-	(341)	341	-	-	-
Recognition of share-based payments	D2	-	698	-	698	-	698
Shares fully vested	D1, D2	1,098	(536)	(165)	397	-	397
Dividends	D3	-	-	(26,716)	(26,716)	(4,594)	(31,310)
Balance at 31 December 2020		96,371	86,774	190,622	373,767	4,638	378,405
Profit for the year		-	-	26,925	26,925	10,025	36,950
Other comprehensive income for the year		-	8,135	-	8,135	127	8,262
Total comprehensive income for the year		-	8,135	26,925	35,060	10,152	45,212
Reclassification of revaluation reserve	D2	-	(2,224)	2,224	-	-	-
Recognition of share-based payments	D2	-	726	-	726	-	726
Shares sold	D1	347	-	-	347	-	347
Shares fully vested	D1, D2	2,870	(1,251)	(295)	1,324	-	1,324
Dividends	D3	-	-	(26,832)	(26,832)	(8,868)	(35,700)
Balance at 31 December 2021		99,588	92,160	192,644	384,392	5,922	390,314

The notes to the financial statements on pages 10 to 44 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Consolidated statement of financial position as at 31 December 2021

	Note	2021 \$000's	2020 \$000's
EQUITY			
Share capital	D1	99,588	96,371
Reserves	D2	92,160	86,774
Retained earnings		192,644	190,622
Equity attributable to Scales Corporation Limited shareholders		384,392	373,767
Equity attributable to non-controlling interests		5,922	4,638
TOTAL EQUITY		390,314	378,405
CURRENT ASSETS			
Cash and bank balances		35,398	47,418
Term deposits		85,000	104,632
Trade and other receivables	E1	28,658	19,452
Other financial assets	E2	5,923	12,688
Unharvested agricultural produce	C2	24,561	24,022
Inventories	C5	29,641	25,805
Prepayments		4,056	3,899
		213,237	237,916
Assets held for sale		-	2,550
TOTAL CURRENT ASSETS		213,237	240,466
NON-CURRENT ASSETS			
Property, plant and equipment	C1	213,869	181,311
Investments accounted for using the equity method	C3	26,051	26,154
Goodwill	C4	43,392	41,905
Other financial assets	E2	11,074	18,143
Computer software		717	354
Right-of-use asset	G2	76,431	77,877
TOTAL NON-CURRENT ASSETS		371,534	345,744
TOTAL ASSETS		584,771	586,210
CURRENT LIABILITIES			
Bank overdrafts		2,196	1,384
Trade and other payables	E3	23,466	25,117
Dividend declared	D3	13,419	13,359
Borrowings	E4	-	860
Current tax liabilities		479	1,593
Other financial liabilities	E5	7,410	4,300
Lease liability	G2	10,237	10,053
TOTAL CURRENT LIABILITIES		57,207	56,666
NON-CURRENT LIABILITIES			
Borrowings	E4	36,060	52,199
Deferred tax liabilities	B5	22,944	25,596
Defined benefit plan net liability		427	632
Other financial liabilities	E5	8,338	2,522
Lease liability	G2	69,481	70,190
TOTAL NON-CURRENT LIABILITIES		137,250	151,139
TOTAL LIABILITIES		194,457	207,805
NET ASSETS		390,314	378,405

The notes to the financial statements on pages 10 to 44 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 2021

	Note	2021 \$000's	2020 \$000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		505,854	469,559
Dividends and distributions received		2,251	1,509
Interest received		1,416	4,042
		<u>509,521</u>	<u>475,110</u>
Cash was disbursed to:			
Payments to suppliers and employees		(453,109)	(407,074)
Interest paid		(4,750)	(4,896)
Income tax paid		(11,823)	(9,916)
		<u>(469,682)</u>	<u>(421,886)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u><u>39,839</u></u>	<u><u>53,224</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from maturing term deposits		19,632	37,368
Advances repaid		1,231	382
Sale of property, plant and equipment and computer software		3,773	298
		<u>24,636</u>	<u>38,048</u>
Cash was applied to:			
Purchase of property, plant and equipment		(15,822)	(24,237)
Purchase of computer software		(705)	(131)
Purchase of financial instruments		(325)	-
		<u>(16,852)</u>	<u>(24,368)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		<u><u>7,784</u></u>	<u><u>13,680</u></u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from seasonal and other facility borrowings	E4	-	3,955
Treasury stock sold		347	-
		<u>347</u>	<u>3,955</u>
Cash was applied to:			
Dividends paid		(26,772)	(26,685)
Dividends paid to non-controlling interests		(8,868)	(4,594)
Repayments of lease liabilities		(7,839)	(7,300)
Repayments of seasonal facility borrowings	E4	-	(3,000)
Repayments of term facility borrowings	E4	(18,000)	-
		<u>(61,479)</u>	<u>(41,579)</u>
NET CASH USED IN FINANCING ACTIVITIES		<u><u>(61,132)</u></u>	<u><u>(37,624)</u></u>
NET (DECREASE) INCREASE IN NET CASH		<u><u>(13,509)</u></u>	<u><u>29,280</u></u>
Net foreign exchange difference		677	(690)
Cash and cash equivalents at the beginning of the year		46,034	17,444
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>33,202</u></u>	<u><u>46,034</u></u>
Represented by:			
Cash and bank balances		35,398	47,418
Bank overdrafts		(2,196)	(1,384)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>33,202</u></u>	<u><u>46,034</u></u>

The notes to the financial statements on pages 10 to 44 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 2021 (continued)

	Note	2021 \$000's	2020 \$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		36,950	26,581
Non-cash items:			
Depreciation (including on right-of-use asset)		19,203	18,595
Reversal of impairment (impairment) on revaluation		(1,650)	4,311
Amortisation		342	584
Share of equity accounted results		(3,162)	(2,224)
Hedging instruments		358	(205)
Government grant		(879)	-
(Gain) loss on disposal of property, plant and equipment		(1,132)	62
Share-based payments		726	698
Change in gross liability on put options		1,852	647
Deferred tax		871	(203)
Operating cash receipts not included in profit for the year:			
Dividends received from equity accounted entities		2,250	1,500
Changes in net assets and liabilities:			
Trade and other receivables		(8,828)	764
Unharvested agricultural produce		(539)	(2,403)
Inventories		(3,498)	28
Prepayments		(148)	(426)
Trade and other payables		(1,760)	5,960
Current tax assets and liabilities		(1,117)	(1,045)
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>39,839</u>	<u>53,224</u>

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 23 February 2022.


Tim Goodacre, Chair


Andy Borland, Managing Director

The notes to the financial statements on pages 10 to 44 form part of and should be read in conjunction with this statement.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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 investment in Meateor Pet Foods Limited Partnership for impairment in note C3.

Basis of consolidation

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

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

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

Other accounting policies

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

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

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

The Group has reviewed all Standards, Interpretations and Amendments to existing Standards in issue not yet effective and does not expect these to have a material effect on the financial statements of the Group.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

The Group comprises the following operating segments:

Food Ingredients: processing and marketing of food ingredients such as pet food ingredients and juice concentrate. Meateor Foods Limited, Meateor Foods Australia Pty Limited, Meateor Group Limited, Meateor US LLC, Shelby JV LLC Group (Shelby Cold Storage LLC, Shelby Exports Inc, Shelby Foods LLC, Shelby JV LLC, Shelby Properties LLC, Shelby Trucking LLC), Meateor GP Limited, Meateor Pet Foods Limited Partnership and Profruit (2006) Limited.

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

Logistics: logistics services. Scales Logistics Limited and Scales Logistics Australia Pty Ltd.

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

	Horticulture	Food Ingredients	Logistics	Other	Eliminations	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
2021						
Total segment revenue	243,422	218,852	81,878	3,453	(33,054)	514,551
Inter-segment revenue	-	-	(30,166)	(2,888)	33,054	-
Revenue from external customers	243,422	218,852	51,712	565	-	514,551
Gain on sale of non-current assets	1,132	-	-	-	-	1,132
Share of profit of entities accounted for using the equity method	-	3,162	-	-	-	3,162
Reversal of impairment (impairment) on revaluation	1,650	-	-	-	-	1,650
EBITDA	41,239	32,933	4,942	(7,495)	-	71,619
Amortisation expense	(298)	-	(33)	(11)	-	(342)
Depreciation expense	(9,522)	(733)	(177)	(11)	-	(10,443)
Depreciation of right-of-use asset	(8,047)	(58)	(596)	(59)	-	(8,760)
Finance revenue	-	-	-	1,203	-	1,203
Finance costs	(18)	(24)	(31)	(1,713)	-	(1,786)
Finance cost of lease liability	(2,666)	(14)	(271)	(13)	-	(2,964)
Segment profit (loss) before income tax	20,688	32,104	3,834	(8,099)	-	48,527

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

SEGMENT REPORTING (CONTINUED)

	Horticulture	Food Ingredients	Logistics	Other	Eliminations	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Segment assets	347,376	112,530	22,382	102,483	-	584,771
Segment liabilities	126,005	27,064	12,961	28,427	-	194,457
Segment carrying value of investment accounted for using the equity method	-	26,051	-	-	-	26,051
Segment acquisition of property, plant and equipment and computer software	15,921	542	58	4	-	16,525
2020						
Total segment revenue	245,984	173,694	77,917	3,784	(30,670)	470,709
Inter-segment revenue	-	-	(28,082)	(2,588)	30,670	-
Revenue from external customers	245,984	173,694	49,835	1,196	-	470,709
Gain on sale of non-current assets	46	-	(108)	-	-	(62)
Share of profit of entity accounted for using the equity method	-	2,224	-	-	-	2,224
Reversal of impairment (impairment) on revaluation	(4,311)	-	-	-	-	(4,311)
EBITDA	35,781	21,872	4,215	(5,128)	-	56,740
Amortisation expense	(475)	-	(43)	(66)	-	(584)
Depreciation expense	(9,049)	(1,045)	(187)	(13)	-	(10,294)
Depreciation of right-of-use asset	(7,586)	(63)	(594)	(58)	-	(8,301)
Finance revenue	1	1	-	2,582	-	2,584
Finance costs	(36)	(32)	(28)	(1,819)	-	(1,915)
Finance cost of lease liability	(2,660)	(18)	(289)	(14)	-	(2,981)
Segment profit (loss) before income tax	15,976	20,715	3,074	(4,516)	-	35,249
Segment assets	329,055	103,793	17,867	135,495	-	586,210
Segment liabilities	122,838	19,082	11,870	54,015	-	207,805
Segment carrying value of investment accounted for using the equity method	-	26,154	-	-	-	26,154
Segment acquisition of property, plant and equipment and computer software	23,800	471	92	6	-	24,369

Non-current assets other than financial instruments by geographical location

	New Zealand		Australia		USA		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Property, plant and equipment	210,074	177,517	34	40	3,761	3,754	213,869	181,311
Investments accounted for using the equity method	26,051	26,154	-	-	-	-	26,051	26,154
Goodwill	16,188	16,188	-	-	27,204	25,717	43,392	41,905
Computer software	717	354	-	-	-	-	717	354
Right-of-use asset	75,897	77,294	180	192	354	391	76,431	77,877

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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

	2021 \$000's	2020 \$000's
By nature:		
Revenue from the sale of goods	428,738	402,194
Revenue from the rendering of services	69,082	64,357
Fees and commission	13	59
Net foreign exchange loss	12,268	(730)
Rental revenue	4,450	4,829
	<u>514,551</u>	<u>470,709</u>
By market:		
New Zealand	96,972	81,549
Asia	140,261	128,582
Europe	45,668	75,041
North America	224,301	184,894
Other	7,349	643
	<u>514,551</u>	<u>470,709</u>
By segment and type:		
Horticulture - sale of agricultural produce	226,606	229,033
Horticulture - agricultural produce related services	12,375	12,133
Horticulture - other	4,441	4,818
Food ingredients - sale of pet food ingredients	213,416	171,144
Food ingredients - other	5,436	2,550
Logistics services	51,712	49,835
Other	565	1,196
	<u>514,551</u>	<u>470,709</u>

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

B2. COST OF SALES, ADMINISTRATION AND OPERATING EXPENSES

	2021 \$000's	2020 \$000's
Auditor's remuneration:		
Deloitte Limited (New Zealand):		
<u>Audit of the financial statements:</u>		
Audit of the annual financial statements	232	175
Review of interim financial statements	48	48
<u>Other assurance services:</u>		
Audit of solvency certificate for Selacs Insurance Limited	7	6
Sheehan & Company CPA, PC (United States):		
Group reporting audit	88	92
Review of subsidiary financial statements	28	31
Bad debts incurred	14	251
Change in fair value adjustment to unharvested agricultural produce	932	802
Change in inventories	(3,743)	252
Direct expenses	71,145	58,852
Directors' fees	596	596
Donations	2	45
Electricity	2,899	2,778
Employee benefits expense:		
Post employment benefits - defined contribution plans	1,339	1,254
Post employment benefits - defined benefit plans	438	508
Salaries, wages and related benefits	83,363	79,809
Other employee benefits	726	698
Grower payments	47,803	49,017
Insurance	3,946	3,609
Management fees	48	48
Materials and consumables	136,854	112,758
Ocean and air freight	76,414	72,056
Operating lease expenses	2,319	2,960
Packaging	16,487	19,225
Provision for write-down of inventories	405	377
Repairs and maintenance	5,514	4,935
	<u>447,904</u>	<u>411,182</u>
Disclosed as:		
Cost of sales	400,663	366,800
Administration and operating expenses	<u>47,241</u>	<u>44,382</u>
	<u>447,904</u>	<u>411,182</u>

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

B3. OTHER INCOME AND LOSSES

	2021 \$000's	2020 \$000's
Dividends	1	9
Gain (loss) on disposal of property, plant and equipment	1,132	(62)
Government grants	879	-
Insurance claims expense paid (Note G4)	(4,010)	(1,636)
Reinsurance income (Note G4)	4,010	1,636
Remeasurement of gross liability to non-controlling interest	(1,852)	(647)
	<u>160</u>	<u>(700)</u>

Disclosed as:

Other income	6,022	1,645
Other losses	(5,862)	(2,345)
	<u>160</u>	<u>(700)</u>

B4. FINANCE COST

Interest on loans	1,281	1,867
Other interest	443	12
Bank facility fees	62	36
	<u>1,786</u>	<u>1,915</u>

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	10,353	8,827
Adjustments recognised in the current year in relation to the current tax of prior years	369	-
Deferred tax expense relating to the origination and reversal of temporary differences	855	(159)
Total income tax expense recognised in profit or loss	<u>11,577</u>	<u>8,668</u>

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	48,527	35,249
Income tax expense calculated at applicable corporate tax rates	13,065	9,590
Non-assessable income	(3,092)	(1,698)
Non-deductible expenses	1,235	472
Under provision of income tax in previous year - current tax	369	-
Under provision of income tax in previous year - deferred tax	-	304
	<u>11,577</u>	<u>8,668</u>

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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 25.5% payable by US entities under US tax law (being federal tax 21% and weighted average state tax 4.5%).

	Opening balance	Charged to profit or loss	Charged to other comprehen- sive 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 2021					
Deferred tax liabilities (assets):					
Trade and other receivables	(164)	175	-	-	11
Unharvested agricultural produce	6,719	158	-	-	6,877
Property, plant and equipment and computer software	12,514	887	2,501	83	15,985
Trade and other payables	(748)	(102)	-	-	(850)
Lease liability and right-of-use asset (NZ IFRS 16)	(676)	(263)	-	-	(939)
Other financial assets and liabilities, joint ventures and pension plan	7,951	-	(6,088)	(3)	1,860
Net deferred tax liability	25,596	855	(3,587)	80	22,944

31 December 2020					
Deferred tax liabilities (assets):					
Trade and other receivables	(23)	(141)	-	-	(164)
Unharvested agricultural produce	6,048	671	-	-	6,719
Property, plant and equipment and computer software	12,820	(745)	439	-	12,514
Trade and other payables	(703)	(45)	-	-	(748)
Lease liability and right-of-use asset (NZ IFRS 16)	(381)	(295)	-	-	(676)
Other financial assets and liabilities, joint ventures and pension plan	1,681	298	5,972	-	7,951
Net deferred tax liability	19,442	(257)	6,411	-	25,596

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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 \$000's	Apple trees at fair value \$000's	Plant and equipment at cost \$000's	Office equipment and motor vehicles at cost \$000's	Capital work in progress at cost \$000's	Total \$000's
Gross carrying amount						
Balance at 1 January 2020	96,779	33,914	61,152	12,102	7,513	211,460
Additions	6,712	1,970	3,771	1,569	10,215	24,237
Reclassified as held for sale	(3,148)	-	-	-	-	(3,148)
Disposals	-	-	(671)	(660)	-	(1,331)
Revaluation	7,693	(3,080)	-	-	-	4,613
Effect of foreign currency translation	(137)	-	(270)	(2)	10	(399)
Balance at 31 December 2020	107,899	32,804	63,982	13,009	17,738	235,432
Additions	14,825	2,568	7,428	684	(9,683)	15,822
Disposals	-	-	(304)	(1,293)	-	(1,597)
Revaluation	20,618	22	-	-	-	20,640
Effect of foreign currency translation	109	-	202	1	10	322
Balance at 31 December 2021	143,451	35,394	71,308	12,401	8,065	270,619
Accumulated depreciation, and impairment						
Balance at 1 January 2020	-	-	36,526	9,193	-	45,719
Depreciation expense	1,440	3,049	4,585	1,220	-	10,294
Reclassified as held for sale	(598)	-	-	-	-	(598)
Disposals	-	-	(347)	(626)	-	(973)
Revaluation	(1,440)	(3,049)	-	-	-	(4,489)
Impairment on revaluation	2,471	1,840	-	-	-	4,311
Effect of foreign currency translation	-	-	(143)	-	-	(143)
Balance at 31 December 2020	1,873	1,840	40,621	9,787	-	54,121
Depreciation expense	1,745	3,026	4,512	1,160	-	10,443
Disposals	-	-	(259)	(1,247)	-	(1,506)
Revaluation	(1,744)	(3,026)	-	-	-	(4,770)
Reversal of impairment on revaluation	(610)	(1,040)	-	-	-	(1,650)
Effect of foreign currency translation	-	-	112	-	-	112
Balance at 31 December 2021	1,264	800	44,986	9,700	-	56,750
Net book value						
As at 31 December 2020	106,026	30,964	23,361	3,222	17,738	181,311
As at 31 December 2021	142,187	34,594	26,322	2,701	8,065	213,869

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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 2021 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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

C1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land and buildings carried at fair value (continued)

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

The significant unobservable inputs, based on regional averages, for the land and buildings (mainly coolstores and packhouses) are potential market comparative rentals \$5 - \$250 per square metre (2020: \$5 - \$283) and the capitalisation rates of 5.3% - 10% (2020: 7.6% - 11%).

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 \$31,600 to \$176,800 per hectare (2020: \$28,300 to \$135,000).

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 \$64,114,000 (31 December 2020: \$50,794,000).

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 2021.

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

	2021	2020
Production levels (gross tray carton equivalent (tce)) per hectare	3,262 - 7,599	2,277 - 7,105
Orchard gate returns per tce	\$25.00 - \$40.00	\$24.75 - \$37.62
Orchard costs per tce	\$13.63 to \$31.14	\$12.95 to \$41.83
Discount rate	15.5% - 16.5%	14.84% - 17.84%

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 \$15,421,000 (31 December 2020: \$16,673,024).

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

C1. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Total hectares planted	
	2021	2020
Premium varieties:		
NZ Queen	207	210
Pink Lady	118	121
Red sports (Fuji and Royal Gala)	264	265
Other premium	173	169
Traditional varieties:		
Braeburn	89	101
Royal Gala	160	177
Other traditional	150	158
	<u>1,161</u>	<u>1,201</u>

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, obtaining hail insurance cover, utilising foreign currency derivative instruments and building close working relationships with key customers.

C2. UNHARVESTED AGRICULTURAL PRODUCE

	2021 \$000's	2020 \$000's
Balance at beginning of the year	24,022	21,619
Decrease due to harvest	(24,022)	(21,619)
Development expenditure	25,931	24,460
Fair value adjustment	(1,370)	(438)
Balance at end of the year	<u>24,561</u>	<u>24,022</u>

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

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

The significant unobservable inputs included in the model are the:

	2021	2020
Production levels (tonnes per hectare per annum)	27 - 131	37 - 159
Orchard gate returns per tce	\$24 to \$57	\$22 to \$48
Risk adjusting discount rates	46% to 64%	43% to 61%

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

C3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Joint ventures	Principal activity	Country of incorporation	Holding		Balance date
			2021	2020	
Profruit (2006) Limited	Trading company	New Zealand	50%	50%	31 December
Meateor Pet Foods Limited Partnership	Trading company	New Zealand	50%	50%	31 December

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

	2021 \$000's	2020 \$000's
Current assets	31,656	35,738
Non-current assets	35,461	36,430
Current liabilities	(9,559)	(13,616)
Non-current liabilities	(5,457)	(6,245)
Net assets	52,101	52,307
Group's share in the net assets of equity accounted entities (50%)	26,051	26,154
Carrying amount of investment in equity accounted entities	26,051	26,154

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	545	1,627
Current financial liabilities (excluding trade and other payables and provisions)	(1,425)	(2,441)
Non-current financial liabilities (excluding trade and other payables and provisions)	(2,466)	(2,790)
Revenue	71,223	61,541
Profit for the year after tax	6,325	4,446
Other comprehensive income attributable to the owners of the company	2,030	1,416
Total comprehensive income	8,355	5,862

The above profit for the year includes the following:

Depreciation and amortisation	1,793	1,576
Interest expense	400	295
Income tax expense	1,352	1,559

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

Share of profit before taxation	3,829	3,003
Share of income tax	(667)	(780)
Share of other comprehensive income (net of tax)	(1,015)	708
Share of net profit for the year and total comprehensive income	2,147	2,931
Carrying value at beginning of the year	26,154	24,973
Interest retained (foregone) in Meateor Pet Foods Limited Partnership	-	(250)
Dividends and distributions paid by equity accounted entities	(2,250)	(1,500)
Investment in equity accounted entities	26,051	26,154

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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

The Group share of the guarantee of the Profruit (2006) Limited bank loan facilities is \$1,464,676 (2020: \$1,096,301).

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.

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.

The Directors have assessed the investment in Meateor Pet Foods Limited Partnership ("LP") for impairment, considering the LP budget for 2022 adopted by Group Board of Directors, as well as the growth assumptions for the following years, including the terminal growth rate, when considering the carrying value of the investment in the LP.

The Directors determined the recoverable amount of the investment in the LP based on the value in use of the business which uses future cash flows covering a minimum 5 year period based on the LP budget for 2022 adopted by Group Board of Directors and growth assumptions for following years, as well as the terminal growth rate.

The directors concluded that there is no impairment of the investment in the LP as the recoverable amount exceeded the \$19.4 million carrying value of the investment in the LP.

Key assumptions:

Pre-tax discount rate	11.45%
Sales and cost of sales growth rate in years 1-5	4.50%
Overhead cost growth rate in years 1-5	3.10%
Terminal growth rate beyond year 5	2.20%

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

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

C4. GOODWILL

	2021 \$000's	2020 \$000's
Gross carrying amount		
Balance at beginning of the year	41,905	43,784
Effect of foreign currency exchange differences	1,487	(1,879)
Balance at end of the year	<u>43,392</u>	<u>41,905</u>

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.

	2021 \$000's	2020 \$000's
Horticulture - Fern Ridge	5,702	5,702
Horticulture - Mr Apple	8,531	8,531
Food Ingredients - Shelby	27,204	25,717
Logistics	1,955	1,955
	<u>43,392</u>	<u>41,905</u>

As at 31 December 2021, the Directors have determined, based on discounted cash flow and value in use calculations, that there is no impairment of goodwill associated with any of the above CGUs.

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

	2021	2020
Pre-tax discount rates	10-13%	10-13%
Annual growth rates	3%	2%

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.

C5. INVENTORIES

	2021 \$000's	2020 \$000's
Finished goods	25,041	20,871
Other	4,600	4,934
	<u>29,641</u>	<u>25,805</u>

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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 142,394,837 fully paid ordinary shares (2020: 142,090,521) less treasury stock of 1,230,166 shares (2020: 1,580,229 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	
	2021	2020
Fully paid ordinary shares:		
Opening balance	142,090,521	141,579,238
Share Scheme - shares issued	304,316	511,283
Closing balance	142,394,837	142,090,521
Treasury stock:		
Opening balance	1,580,229	1,383,659
Share Scheme - shares issued	304,316	511,283
Share Scheme - shares forfeited and sold	(61,074)	-
Share Scheme - shares fully vested	(593,305)	(314,713)
Closing balance	1,230,166	1,580,229

The available subscribed capital of \$47,456,844 (2020: \$46,072,206) 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.

	2021	2020
	\$000's	\$000's
Movement in share capital related to share-based payments:		
Equity-settled employee benefit share scheme vested		
Interest-free loan became full recourse	1,324	397
Accumulated share option value reclassified from reserve into share capital	1,251	536
Accumulated dividends reclassified from retained earnings into share capital	295	165
	2,870	1,098

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

D2. 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
Balance at 1 January 2020	55,869	4,927	151	1,640	(76)	-	62,511
Other comprehensive income (loss)	8,663	15,020	510	-	(784)	(60)	23,349
Transfer to retained earnings	1,093	-	-	-	-	(341)	752
Recognition of share-based payments	-	-	-	698	-	-	698
Shares fully vested	-	-	-	(536)	-	-	(536)
Balance at 31 December 2020	65,625	19,947	661	1,802	(860)	(401)	86,774
Other comprehensive income (loss)	22,909	(14,926)	(731)	-	692	191	8,135
Transfer to retained earnings	(2,224)	-	-	-	-	-	(2,224)
Recognition of share-based payments	-	-	-	726	-	-	726
Shares fully vested	-	-	-	(1,251)	-	-	(1,251)
Balance at 31 December 2021	86,310	5,021	(70)	1,277	(168)	(210)	92,160

Revaluation reserve

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

Cash flow hedge reserve

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

Equity-settled employee benefits reserve

The Share Scheme involves the Company making available interest-free loans to selected senior executives to acquire shares in the Company. The senior executives will not gain any benefit with respect to the shares purchased under the Share Scheme unless they remain in employment with the Group for a period of 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
20 April 2018 - FY17A	20 April 2021	1.70	309,698	-	-	(309,698)	-
20 April 2018 - FY17B	20 April 2021	2.51	36,007	-	-	(36,007)	-
20 April 2018 - FY17C	20 April 2021	3.62	40,577	-	-	(40,577)	-
28 June 2018 - FY17R	28 June 2021	4.13	207,023	-	-	(207,023)	-
30 April 2019 - FY18	30 April 2022	2.71	261,356	-	(12,177)	-	249,179
28 June 2019 - FY18R	28 June 2022	4.06	214,285	-	(13,547)	-	200,738
30 April 2020 - FY19	30 April 2023	3.20	301,657	-	(10,313)	-	291,344
28 June 2020 - FY19R	28 June 2023	4.19	209,626	-	(15,115)	-	194,511
30 April 2021 - FY20	30 April 2024	3.20	-	304,316	(9,922)	-	294,394
Total			1,580,229	304,316	(61,074)	(593,305)	1,230,166

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

D2. RESERVES (CONTINUED)

The weighted average share price for shares that vested during 2021 was \$4.76.

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.

	2021	2020	
	FY20	FY19	FY19R
The inputs into the "option pricing calculator" are:			
Issue date share price, \$	4.55	4.90	4.96
Expected share price volatility, %	23	21	21
Option life, years	3	3	3
Risk-free interest rate, %	0.41	0.51	0.14
Exercise price, \$	3.20	3.20	4.19
Fair value, at the grant date, \$	1.54	1.83	1.12

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

	2021	2020
	\$000's	\$000's
Final dividend paid - 9.50 (2020: 9.50) cents per share	13,413	13,357
Interim dividend declared - 9.50 (2020: 9.50) cents per share	13,419	13,359
	<u>26,832</u>	<u>26,716</u>

All above dividends were fully imputed.

The 2021 interim dividend was declared on 8 December 2021 and paid on 14 January 2022.

D4. IMPUTATION CREDIT ACCOUNT

	2021	2020
	\$000's	\$000's
Balance at end of the year	20,895	20,773

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

	2021	2020
Profit attributable to equity holders of the Company (\$'000's):	26,925	21,025
Weighted average number of shares:		
Ordinary shares	140,900,047	140,402,514
Effect of dilutive ordinary shares (non-vested Senior Executive Share Scheme)	351,554	467,735
Weighted average number of Ordinary Shares for diluted earnings per share	141,251,601	140,870,249
Earnings per share (cents):		
Basic - continuing	19.1	15.0
Diluted - continuing	19.1	14.9

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

E1. TRADE AND OTHER RECEIVABLES

	2021 \$000's	2020 \$000's
Trade receivables	23,945	14,151
Interest receivable	372	585
Other receivables	1,224	1,091
Owing by entity accounted for using the equity method	-	157
Goods and services tax	3,117	3,468
	<u>28,658</u>	<u>19,452</u>

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 36.87% (2020: 5 customers who represented 38.07%) 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	5,740	2,316
2 months	1,508	616
More than 2 months	2,260	2,169
	<u>9,508</u>	<u>5,101</u>

There was no material ECL based on Group assessment as at 31 December 2021 (2020: nil).

E2. OTHER FINANCIAL ASSETS

Current:

At fair value:

Foreign currency derivative instruments	5,923	12,688
	<u>5,923</u>	<u>12,688</u>

Non-current:

At fair value:

Foreign currency derivative instruments	10,185	17,572
Interest rate swap contracts and forward rate agreements	198	-
Shares in unlisted companies	184	184

At amortised cost:

Employee loans	507	387
	<u>11,074</u>	<u>18,143</u>

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

E3. TRADE AND OTHER PAYABLES

	2021 \$000's	2020 \$000's
Trade payables	11,551	13,707
Accruals	6,858	6,494
Employee entitlements	5,057	4,916
	<u>23,466</u>	<u>25,117</u>

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 USD denominated loans are designated as a hedge of net investment in foreign operations.

Facility	Facility limit		Undrawn facility	
	2021 \$000's	2020 \$000's	2021 \$000's	2020 \$000's
Rabobank term facility, NZD	1,000	10,000	-	-
Rabobank term facility, USD	11,635	11,635	-	-
Rabobank seasonal facility, NZD	1,000	1,000	1,000	1,000
Westpac term facility, NZD	1,000	10,000	-	-
Westpac term facility, USD	11,635	11,635	-	-
Westpac seasonal facility, NZD	1,000	1,000	-	-
ANZ overdraft, NZD	1,000	1,000	1,000	1,000

The floating interest rate is 1.22% to 2.17% (2020: 1.25% to 2.44%) and the term borrowing facility expiry date is 1 July 2024. Seasonal facility presented as current borrowings is due for repayment within one year. The bank facilities are secured by a first ranking security interest granted by each of the Charging Group Companies over all its present and after-acquired property (including proceeds) and a first ranking security interest over any of the Charging Group Companies' present and future assets and undertakings which are not personal property. The bank facilities are also secured by first and exclusive registered mortgages over property comprising coolstores, orchards and industrial and commercial property owned by members of the Charging Group. Charging Group Companies as at 31 December 2021 are Scales Corporation Limited, Scales Holdings Limited, Mr Apple New Zealand Limited, New Zealand Apple Limited, Geo.H.Scales Limited, Meateor Foods Limited, Scales Logistics Limited and Meateor Group Limited.

	Seasonal facility		Other current borrowings		Term borrowings	
	2021 \$000's	2020 \$000's	2021 \$000's	2020 \$000's	2021 \$000's	2020 \$000's
Seasonal (current) and term (non-current) borrowings:						
Opening balance	-	-	860	-	52,199	54,551
Drawdowns	-	3,000	-	955	-	-
Repayments	-	(3,000)	-	-	(18,000)	-
Loans forgiven	-	-	(860)	-	-	-
Effect of foreign currency translation	-	-	-	(95)	1,861	(2,352)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>860</u>	<u>36,060</u>	<u>52,199</u>

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

E5. OTHER FINANCIAL LIABILITIES

	2021 \$000's	2020 \$000's
Current financial liabilities at fair value:		
Foreign currency derivative instruments	1,822	35
Interest rate swap contracts and forward rate agreements	173	618
Put option	5,415	3,647
	<u>7,410</u>	<u>4,300</u>
Non-current financial liabilities at fair value:		
Foreign currency derivative instruments	6,387	366
Interest rate swap contracts and forward rate agreements	-	554
Put option	1,951	1,602
	<u>8,338</u>	<u>2,522</u>

In 2016 the Group increased its shareholding in Fern Ridge Produce Limited ("Fern Ridge") to 75%. As part of the transaction, 2.12% of the shares were then sold to an employee of Fern Ridge, and Scales entered into agreements with the remaining shareholders of Fern Ridge whereby those shareholders have an option to put their shares to Scales at a value based on a multiple of Fern Ridge profits, but with a minimum value equivalent to that paid to the selling shareholders.

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

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

E6. INTEREST RATE RISK

Interest rate risk management

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

Interest rate swap contracts and forward rate agreements

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

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

E6. INTEREST RATE RISK (CONTINUED)

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 and forward rate agreements for the Group are:

Maturity Date	Fixed Interest Rate		Notional principal amount		Fair value	
	2021	2020	2021	2020	2021	2020
	%	%	\$000's	\$000's	\$000's	\$000's
Interest rate swap contracts:						
Within 1 year	-	4.62	-	10,000	-	(323)
2-5 years	1.20	3.25	16,101	10,000	25	(849)
After 5 years	-	-	-	-	-	-
			<u>16,101</u>	<u>20,000</u>	<u>25</u>	<u>(1,172)</u>

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.

	2021		2020	
	+1% \$000's	-1% \$000's	+1% \$000's	-1% \$000's
Impact on net profit after tax	(14)	14	192	(192)
Impact on cash flow hedge reserve net of tax	460	(485)	238	(247)

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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:

	2021		2020	
	Contract Value	Fair Value	Contract Value	Fair Value
	\$000's	\$000's	\$000's	\$000's
Sale commitments forward foreign exchange contracts	315,284	1,754	217,512	14,979
Sale commitments foreign exchange options	171,680	6,145	106,640	14,880

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 2022 to 2026 financial years at which stage the amount deferred in equity will be released into profit or loss.

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

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

	2021		2020	
	+5%	-5%	+5%	-5%
	\$000's	\$000's	\$000's	\$000's
Impact on net profit after tax	(494)	546	(273)	302
Impact on cash flow hedge reserve net of tax	(16,811)	15,552	(11,694)	10,811

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

E8. CATEGORIES OF FINANCIAL INSTRUMENTS

	2021 \$000's	2020 \$000's
Financial assets:		
Amortised cost	61,446	63,789
Derivative instruments in designated hedge accounting relationships	16,108	30,260
Fair value through profit or loss	184	184
	<u>77,738</u>	<u>94,233</u>
Financial liabilities:		
Amortised cost	75,141	92,919
Derivative instruments in designated hedge accounting relationships	8,382	1,573
Fair value through profit or loss	7,366	5,249
	<u>90,889</u>	<u>99,741</u>

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

E9. MATURITY PROFILE OF FINANCIAL LIABILITIES

Liquidity risk management

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

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Within 3 months \$000's	4 months to 1 year \$000's	1-5 years \$000's	Total \$000's
2021				
Trade and other payables	23,466	-	-	23,466
Dividend declared	13,419	-	-	13,419
Put options	5,415	-	1,951	7,366
Borrowings	165	500	37,055	37,720
Interest rate swaps and forward rate agreements	96	292	1,293	1,681
	<u>42,561</u>	<u>792</u>	<u>40,299</u>	<u>83,652</u>
2020				
Trade and other payables	25,117	-	-	25,117
Dividend declared	13,359	-	-	13,359
Put options	3,647	-	1,602	5,249
Borrowings	208	630	52,616	53,454
Interest rate swaps and forward rate agreements	196	437	614	1,247
	<u>42,527</u>	<u>1,067</u>	<u>54,832</u>	<u>98,426</u>

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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.

F1. SUBSIDIARY COMPANIES

Subsidiary companies:	Principal activity	Country of incorporation	Holding		Balance date
			2021	2020	
Fern Ridge Produce Limited	Trading company	New Zealand	72.88%	72.88%	31 December
Geo. H. Scales Limited	Non trading company	New Zealand	100%	100%	31 December
Longview Group Holdings Limited	Non trading company	New Zealand	100%	100%	31 December
Meateor Foods Australia Pty Limited	Trading company	Australia	100%	100%	31 December
Meateor Foods Limited	Trading company	New Zealand	100%	100%	31 December
Meateor Group Limited	Holding company	New Zealand	100%	100%	31 December
Meateor US LLC	Holding company	United States	100%	100%	31 December
Mr Apple New Zealand Limited	Trading company	New Zealand	100%	100%	31 December
New Zealand Apple Limited	Trading company	New Zealand	100%	100%	31 December
Scales Employees Limited	Custodial company	New Zealand	100%	100%	31 December
Scales Holdings Limited	Holding company	New Zealand	100%	100%	31 December
Scales Logistics Limited	Freight consolidator	New Zealand	100%	100%	31 December
Scales Logistics Australia Pty Ltd	Freight consolidator	Australia	100%	100%	31 December
Selacs Insurance Limited	Insurance company	New Zealand	100%	100%	31 December
Shelby Cold Storage, LLC	Coldstore operator	United States	60%	60%	31 December
Shelby Exports, Inc	Non trading company	United States	60%	60%	31 December
Shelby Foods, LLC	Trading company	United States	60%	60%	31 December
Shelby JV LLC	Holding company	United States	60%	60%	31 December
Shelby Properties LLC	Non trading company	United States	60%	60%	31 December
Shelby Trucking LLC	Trading company	United States	60%	60%	31 December

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

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

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

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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

	2021 \$000's	2020 \$000's
Commitments entered into in respect of apple trees purchases as at balance date	1,264	289

G2. LEASES

The Group as a lessee

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

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

Lease payments included in the measurement of the lease liability comprise:

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

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

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

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 not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

Right-of-use assets

	Land and buildings	Plant and equipment	Office equipment motor and vehicles	Total
	\$000's	\$000's	\$000's	\$000's
Carrying Amount				
Balance at 1 January 2020	74,078	214	4,483	78,775
Additions	4,831	-	2,572	7,403
Depreciation expense	(6,082)	(185)	(2,034)	(8,301)
Balance at 31 December 2020	72,827	29	5,021	77,877
Additions	5,212	451	1,651	7,314
Depreciation expense	(6,372)	(180)	(2,208)	(8,760)
Balance at 31 December 2021	71,667	300	4,464	76,431

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

G2. LEASES (CONTINUED)

	2021 \$000's	2020 \$000's
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	8,760	8,301
Interest expense on lease liabilities	2,964	2,981
Expense relating to short-term leases and low-value assets	2,319	2,960
Lease liabilities		
Current	10,237	10,053
Non-current	69,481	70,190
Maturity analysis (undiscounted cash flows)		
Year 1	10,244	10,053
Year 2	9,205	9,003
Year 3	8,613	8,089
Year 4	8,083	7,535
Year 5	7,451	7,146
Onwards	59,860	61,983
	<u>103,456</u>	<u>103,809</u>
Cash outflows for leases		
Interest on lease liabilities	2,964	2,981
Repayments of lease liabilities	7,839	7,300
Short-term leases and low-value asset leases	2,319	2,960
	<u>13,122</u>	<u>13,241</u>

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	2,986	2,784
Share-based payments	416	367
Post-employment benefits	99	95
	<u>3,501</u>	<u>3,246</u>

During 2021, 1,201,923 (2020: 1,062,451) shares were on issue to key management personnel in accordance with the Share Scheme described in note D2.

Transactions with equity accounted entities

Revenue from sale of goods	1,623	1,189
Revenue from services	4,547	3,910
Dividends and distributions received	2,250	1,500
Trade receivables at balance date	479	257

Scales Corporation Limited

Notes to the financial statements for the year ended 31 December 2021

G4. CONTINGENT LIABILITY

In December 2018 an insurance claim was notified to Selacs Insurance Limited, a wholly owned subsidiary of Scales Holdings Limited, which in turn is a wholly owned subsidiary of Scales Corporation Limited.

The claim arose in consequence of the collapse of the roof of a leased coldstore located in Hastings, Hawke's Bay.

The material damage component of the claim was settled during the current year. The business interruption component of the claim was also agreed and partially settled during the current year.

The risk was fully reinsured, and there was no impact on net income or net assets of the Group.

Claim expense and reinsurance revenue recorded during the year are disclosed in Note B3. Preliminary payments from reinsurers paid to the insured party were recorded as claim expense and reinsurance revenue in previous years.

G5. EVENTS OCCURRING AFTER BALANCE DATE

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

G6. COVID-19

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

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

(a) Uncertainties, estimates and judgements

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

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

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

(b) Government grants

Government support was received in the United States of America by way of government loans during 2020. These loans may be forgiven if the eligibility criteria are met. This criteria was met during 2021 and therefore the Group recognised \$866,000 as other income in the consolidated statement of comprehensive income.

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

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 2021, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 4 to 44, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

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

Audit materiality

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

We determined materiality for the Group financial statements as a whole to be \$2.0 million.

Key audit matters

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

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 \$24.6 million at balance date as described in note C2. A revaluation loss of \$1.4 million is recorded in profit or loss.

Fair value less costs to sell is calculated by the Group using a discounted cash flow model. The model includes significant unobservable inputs and assumptions including, for each variety, the forecast production per hectare per annum by weight, 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 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, that would impact the current crop valuation, including consideration of the impact of COVID-19;
- Assessing and challenging the reasonableness of the risk-adjusting discount rates;
- Engaging a Deloitte valuation specialist to consider whether the valuation method applied was appropriate and whether the risk-adjusting discount rates were reasonable based on risks relating to the unharvested agricultural produce;
- Challenging the reasonableness of the key assumptions by comparing the forecast production, prices, and costs to harvest and sell for the current growing season, to the approved budgets for each orchard;
- Assessing the historical accuracy of the Group's budget forecasts by comparing to the actual results for production per hectare and sales prices; 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 \$34.6 million. A revaluation gain of \$3 million has been recorded in other comprehensive income, with an impairment reversal of \$1 million noted on revaluation.

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 is determined by an independent registered valuer on the basis of a discounted cash flow analysis of forecast income streams and costs from each orchard less the fair value of orchard land and buildings. The model uses a number of significant unobservable inputs, in particular: production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates.

Valuation of apple trees is considered to be a key audit matter due to the significance of the assets to the Group's consolidated statement of financial position, and the level of judgement involved in valuing the apple trees.

Our procedures focused on the appropriateness of the valuation methodology and the key assumptions applied in the model.

Our procedures included, amongst others:

- Evaluating the Group's processes in respect of the independent valuation of the apple trees including its review of the valuation methodology and determination of the key valuation assumptions;
- Engaging a Deloitte valuation specialist to consider whether the valuation methods applied 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. We specifically discussed the impact of COVID-19 with the valuer;
- Assessing the valuation methodology for consistency with the most recent valuation ("2020 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;
- Challenging the reasonableness of the key assumptions by comparing them to the 2020 valuation, the Group's internal data and current market evidence. We focused on the assumptions relating to production levels per hectare, orchard gate returns (market prices), orchard costs, and discount rates, including consideration of the impact of COVID-19;
 - We tested estimated production levels per hectare by comparing orchard hectares in production with the 2020 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 2020-year valuation and actual costs incurred.
 - We challenged the discount rates by comparing them with 2020 valuation discount rates and considering the risks associated with the orchards.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment Assessment of the Investment in Meateor Pet Foods Limited Partnership ("LP")</p> <p>As disclosed in note C3 the Group holds a 50% investment in Meateor Pet Foods Limited Partnership, a joint venture. The entity is an equity accounted investment with a carrying value of \$19.4 million at 31 December 2021.</p> <p>The Group has assessed the investment in the LP for impairment in the current year. A value in use discounted cash flow methodology was used to determine the recoverable amount of the investment in the LP at 31 December 2021.</p> <p>The key assumptions applied in the model are:</p> <ul style="list-style-type: none"> • Forecast earnings; • Pre-tax discount rates; • Sales and cost of sales growth rate; • Overhead cost growth rate; and • Terminal growth rate. <p>The Group has concluded that there is no impairment of the investment in the LP as the recoverable amount exceeded the carrying value of the LP.</p> <p>We have included the impairment assessment of the Group's investment in Meateor Pet Foods Limited Partnership as a key audit matter due to the prior year performance of the LP being below expectations and the significance of the balance to the financial statements.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of both the LP and the Group impairment models, including key assumptions and how they have changed from the prior year. • Challenging the reliability of the growth rates by comparing the forecasts underlying the growth rates to historical forecasts and actual results of the underlying businesses (where applicable). This also included consideration of the impact of COVID-19 on both forecast revenue and profitability of the LP; • Considering the sensitivity analysis for key assumptions in the models; • Agreeing a sample of future cash flows to LP Board approved forecasts; • Testing the mathematical integrity of the model; and • Assessing the independence and expertise of the expert that reviewed the LP impairment model. <p>We used our internal valuation specialists to assist with evaluating the LP model and challenging the key assumptions. The procedures of the specialist included:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the valuation methodology; • Evaluating the determination of the pre-tax discount rates used in the model through consideration of the relevant risk factors for the LP, the cost of capital for the LP, and market data on comparable businesses; and • Comparing the terminal growth rates to market data for the industry sectors.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Restriction on use

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



**Nicole Dring, Partner
for Deloitte Limited**
Christchurch, New Zealand
23 February 2022