SCOTT

SCOTT TECHNOLOGY LIMITED 2018

ANNUAL REPORT

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HIGHLIGHTS

$181.8M
REVENUE
An increase of 37% on the prior year

14.3CENTS
EARNINGS PER SHARE
An increase of 8% on the prior year

75
COUNTRIES
Products exported to

10CENTS
TOTAL ANNUAL DIVIDEND
Per share fully imputed

ALVEY & TRANSBOTICS
ACQUISITIONS

778
EMPLOYEES
Across twelve countries

DIVIDEND

Final dividend: 6.0 cents per share, fully imputed.

Record date: 20 November 2018
Payment date: 27 November 2018

Dividend reinvestment plan applies to this payment for shareholders who have elected to receive shares in lieu of a cash dividend.

ANNUAL MEETING

Thursday 29 November 2018 at 3:00pm at Scott Technology Limited, 10 Maces Rd, Bromley, Christchurch.

Proxies close 3:00pm, Tuesday, 27 November 2018

SCOTT

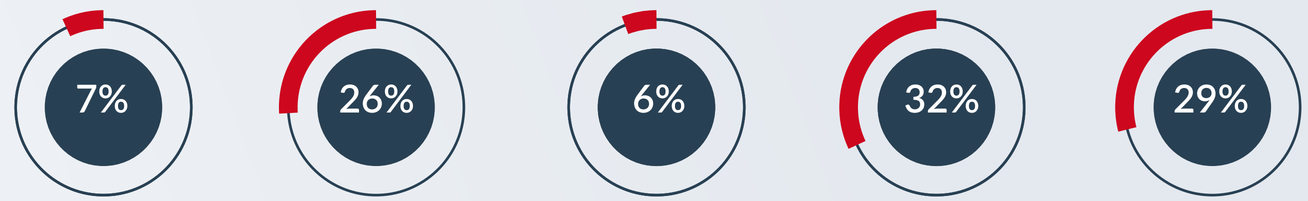
FIVE YEAR TRENDS

FINANCIAL	2014 $'000s	2015 $'000s	2016 $'000s	2017 $'000s	2018 $'000s
Total revenue	60,316	72,298	112,044	132,631	181,779
Net surplus before tax	4,231	8,102	10,965	14,913	15,046
Cash flow from operating activities	121	9,987	16,108	13,407	615
Net cash/(overdraft)	(4,888)	1,285	34,244	26,670	12,473
Bank term loans	8,424	17,369	-	-	7,409
Total assets	77,026	84,445	113,811	126,181	170,111
Shareholders' equity	47,265	50,618	94,600	97,156	102,947

DIVIDENDS (CENTS PER SHARE)					
Interim	2.5	2.5	4.0	4.0	4.0
Final	5.5	5.5	5.5	6.0	6.0
Total	**8.0**	**8.0**	**9.5**	**10.0**	**10.0**

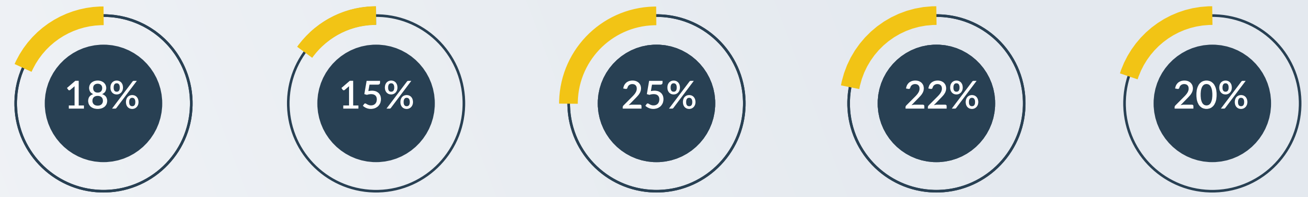
EMPLOYEES (NUMBER)					
New Zealand	221	194	197	215	249
Australia	17	70	80	84	95
Asia	51	52	33	27	33
Americas	34	45	50	44	74
Europe	1	1	40	53	327
Total	**324**	**362**	**400**	**423**	**778**

REVENUE BY GEOGRAPHY



New Zealand | Australia | Asia | Americas | Europe

REVENUE BY INDUSTRY



Mining | Materials Handling & Logistics | Meat Processing | Appliances | Industrial Automation

GROWTH

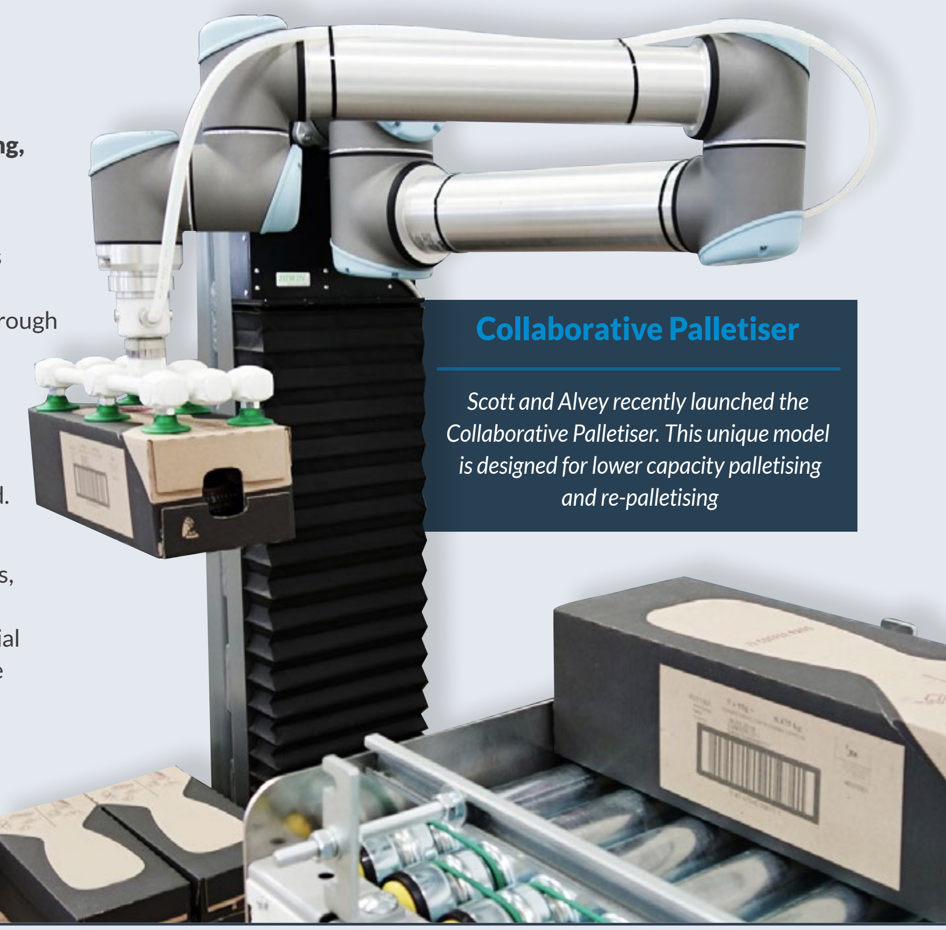
In early 2018 Scott announced the acquisition of Europe based Alvey Group – specialists in palletising, conveying and warehouse automation.

Alvey is an exciting acquisition for Scott with great potential for both companies. Strategically this allows Scott to build an end-to-end automation offering for the production process from raw materials receipt through to warehousing and final distribution.

Alvey Group specialises in tailor-made industrial automation projects. Alvey systems help increase efficiency in plants, where the handling of secondary packaging, semifinished or finished products is involved.

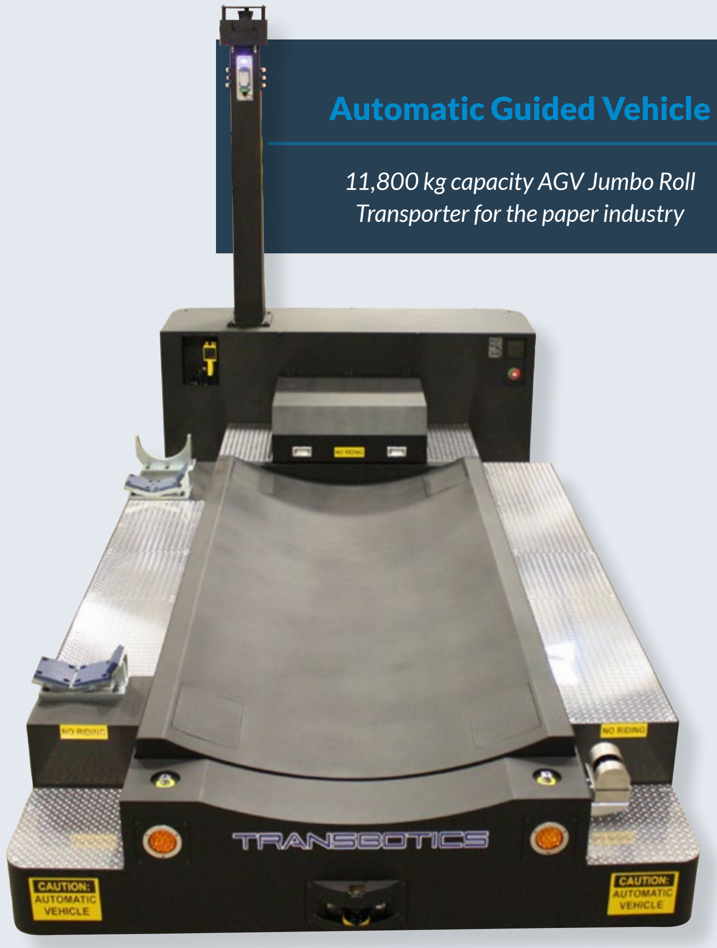
Alvey has a wide portfolio of industrial services and systems including conventional and robotic palletisers, depalletisers, pallet conveyors, case conveyors, order preparation systems, stacker cranes and other material handling equipment, complemented by its warehouse management software package, Maestro+.

ALVEY
MASTERS IN INDUSTRIAL AUTOMATION



Collaborative Palletiser

Scott and Alvey recently launched the Collaborative Palletiser. This unique model is designed for lower capacity palletising and re-palletising



Automatic Guided Vehicle

11,800 kg capacity AGV Jumbo Roll Transporter for the paper industry

Shortly after the acquisition of Alvey, Scott announced the acquisition of Transbotics Corporation, a North Carolina based Automatic Guided Vehicle (AGV) company in April 2018.

Since 1982, Transbotics Corporation has specialised in the design, installation and support of AGVs, and Automated Guided Carts (AGC's), including custom engineered vehicles to provide proven, reliable material handling solutions for production and warehouse facilities.

The acquisition of Transbotics is consistent with Scott's acquisition strategy of accelerating market access, while providing the skills and technologies faster and at a lower cost than doing it ourselves. Recently Scott has engaged in projects that have required the integration of AGV systems from third parties. We will now be able to meet this need in house, while removing the risk and cost associated with outsourcing. It has also provided a strong platform to launch Scott's existing materials handling and logistics products into the North American market.

TRANSBOTICS
MOVING YOUR BUSINESS

OUR VALUES

WHO WE ARE AND WHO WE WANT ON OUR TEAM

Build trust and confidence with our internal and external customers, in the way we listen, engage and respond to their needs.

CUSTOMER FOCUS

Add value and understand our customers' perspectives and expectations.

Innovate, be creative and think lean and efficient.

Persist. Have strength and act with urgency.

Continually evaluate and measure progress and take action.

RESULTS MATTER

Do what you say you will, respect, support others and always give your best.

Be accountable for your actions, be positive, flexible and open minded.

TEAMS WHO TRUST

Take part and share the celebration of change and success.

ATTITUDE AND INTEGRITY

All actions and communications support ONE Team, ONE Company.

Empower, share information and be accountable.

Take care of the company and our customers like they were one's own.

Act with honour in everything you do.

CHAIRMAN & MANAGING DIRECTOR'S COMMENTARY

STUART McLAUCHLAN & CHRIS HOPKINS

Stuart McLauchlan

Chairman & Independent Director

Chris Hopkins

Managing Director

BUSINESS OVERVIEW

Scott's strategy of growth through an expanded geographic presence in major global markets is starting to deliver. Our global business, through local representation, has achieved several milestones. Record growth in staff, output and product offerings has the Company well positioned to consolidate these gains.

During the year, Scott completed two exciting and complementary acquisitions with Alvey in Europe and Transbotics in the USA. These businesses strengthen our materials handling and logistics offering and provide a stronger presence and diversity in key markets. We have already seen growth opportunities within the acquired businesses, driven by the wider reach of Scott and the ability to cross sell between markets. By having capability in multiple industries and by having people where our customers are, means we are "agile and capable", both key factors in winning and keeping customers. We are now a truly global organisation with our European business now the same size as our Australasian business, helping to deliver a much larger proportion of our customers, resources and activities outside New Zealand.

Our overall strategy is to build one team that delivers seamless service to our customers in each of our target segments, at the same time providing local manufacturing, installation, service and support on the ground in each of our target geographies.

Scott's diversification strategy has delivered major benefits and competitive advantages through an exposure to a range of industries in widespread geographies. Through this diverse exposure we have been able to position the Company to take advantage of economic and industry cycles.

Our core values continue to underpin everything we do, and represent what we stand for as an organisation and sets direction for the future. We emphasise our commitment to our values throughout Scott, from our recruitment process through to our day to day operation. Values awards for our team members were introduced during the year, along with Scott 'Safe Mate' awards.

HEALTH & SAFETY

Health and Safety is an important focus for Scott and we look for the same commitment from our customers. Although our track record is good, we continue to strive for even better standards, with continuous improvement of our health and well-being outcomes for all our staff and stakeholders. We strive to implement best practice across the group in all geographies, often over and above the relevant country legislative requirements.

FINANCIAL PERFORMANCE

For the year ended 31 August 2018 the Company produced another strong result, with total revenues up 37%, to $181.8m on the $132.6m revenues achieved in the prior year. Of this revenue growth, 14% was achieved by the business that we started the year with and acquisitions added 23%. Operating earnings before interest tax depreciation and amortisation (Operating EBITDA) of $19.8m increased 21% from $16.4m in the prior year. Operating EBITDA in 2018 excludes one-off due diligence and acquisition costs of $0.5m that are now required by accounting rules to be expensed, rather than included in the purchase price, and in 2017 a $0.9m fair value gain on purchase of business.

Two acquisitions were successfully completed in the second half of the year and this years' result includes five months from our Alvey operations in Europe and three months from our Transbotics operations in the USA.

Sales into our traditional markets of the Appliances, Meat Processing and Mining sectors all achieved double digit growth, with the Appliance sector being the stand out performer, with a 56% increase from the prior year. This reflects several large projects successfully sold, worked on and completed collaboratively across our New Zealand, German and Chinese operations.

At balance date the Company had $12.5m of cash in the bank, with total shareholders' funds of $102.9m, compared to $97.2m in 2017. During the year cash was used to settle the acquisitions of Alvey in Europe and Transbotics in the USA. Deferred settlements on these purchases will see our surplus cash, held for acquisitions, fully expended. With these acquisitions complete, our focus is now firmly on integrating the businesses acquired, driving synergies, operational benefits and efficiencies expected from the combined business. The larger Scott Group is now well positioned to deliver significant growth supported and driven by our strategy.

CHAIRMAN & MANAGING DIRECTOR'S COMMENTARY (cont.)

DIVIDEND

The Directors have declared a final dividend of 6.0 cents per share for the year ended 31 August 2018, payable on 27 November 2018.

With the interim dividend of 4.0 cents per share paid in April 2018, the total dividend for the year is 10.0 cents per share. The final dividend will be fully imputed and the Dividend Reinvestment Plan will apply.

RESEARCH AND DEVELOPMENT

During the year, we added many additional products and technologies to our offering from commercialising past Research and Development and through the acquisitions noted above. To ensure Scott stays relevant and to capitalise on the many opportunities yet to be exploited, we will maintain a strong commitment to Research and Development. Scott's total gross Research and Development investment exceeded $11.0m in the current year, representing 6% of our total revenues. Our development focuses on extending our capability and range of technologies. In addition to developing new applications across all key industries served, we have commenced significant projects aimed at transferring our technology and capability from lamb deboning to other species. Scott currently has two significant development projects underway in beef, one in pork and two in poultry. Other developments are underway in automated palletising, mining technologies and automatic guided vehicles (AGV's).

Where possible, we seek technical and financial support for our Research and Development activities from customers, industry bodies and the Governments of Australia and New Zealand. With their help and Scott's commitment we have established Scott as a leader in this field and as a recognised developer of smart automation. We have also commenced our journey into digital platforms and now have a growing portfolio of products and applications ranging from warehouse management software through to machine visualisations and machine learning with artificial intelligence.

CUSTOMER AND MARKET FOCUS

It is obvious to ourselves and our customers that there is an unprecedented shortage of skilled people. Our response is to establish advanced automation and robot training facilities with programmes targeted at upskilling our own team members, as well as customers.

In nearly all the markets we operate, we see common challenges faced by our customers – declining productivity growth, labour shortages, rising costs, and the need for safe operations. Many customers recognise automation and robotics as a viable solution to these challenges. The move toward smart factories (Industry 4.0 or the Industrial Internet of Things) and intelligent manufacturing drives the need for more and more information about the products being produced or the food being delivered to consumers. Scott systems, combined with our digital platforms, can deliver not only the products, but also the information required.

Across our target market sectors we continue to experience strong enquiry levels from Appliance customers, particularly in Europe where new projects have been undertaken for new customers in associated metal forming industries in Germany.

Our acquisition strategy over the last 10 years has provided us with customer and industry diversification:

APPLIANCES & METAL FORMING	MEAT PROCESSING	MINING	MATERIALS HANDLING & LOGISTICS	INDUSTRIAL AUTOMATION & ROBOTICS

and critical mass in key markets:

NEW ZEALAND 249 STAFF	AUSTRALIA 95 STAFF	CHINA 33 STAFF	USA 74 STAFF	EUROPE 327 STAFF

More importantly, our acquisition strategy has now given us the ability to offer complete end to end automation solutions to our customers across all industries:

CUSTOMER OPERATING SYSTEM INTERFACE	MATERIALS HANDLING	PROCESSING	PACKAGING & PALLETISING	LOGISTICS	SERVICE

Oven Chassis assembly line built in Christchurch

In the Mining sector there is steady demand for standard products and ongoing demand for system solutions for both automated laboratories and mine site operations.

Bladestop bandsaw sales met our current year targets and, combined with ongoing demand for lamb boning automation solutions in New Zealand and Australia, helped deliver record sales in our Meat Processing sector.

During the year, Scott took the 'RobotWorx' model from the USA and launched RobotWorx in Australia. This was facilitated by the opportunity to purchase a quantity of robots disposed of as part of the shutdown of automotive manufacturing in Australia. These robots are in the process of being refurbished and sold back into industry. The RobotWorx model offers the advantage of lower price and immediate availability.

PEOPLE

Scott's investment in its people includes leadership training targeted at further developing front line management to ensure we have the skills required for future growth. This also allows us to strengthen our ability to promote internally through effective succession planning processes.

Scott's leadership team has been further strengthened through the acquisitions, as well as through promotions and external appointments. Having the right people is key to our business.

Over the past two years, in an effort to improve our work environment, we have relocated our business into new larger premises in Auckland, Wellington, Sydney and Melbourne. We are currently planning relocations in Perth and Charlotte and a building expansion is underway in Dunedin that will double the size of this facility.

THE YEAR AHEAD (OUTLOOK)

Forward project work is at record levels and supports our objective of strong growth in the year ahead. Progressively commercialising our Research and Development and expanding our after sales service, spare parts and maintenance will ensure our growth is sustainable. We are looking forward to a full twelve months of operation of our acquisitions and achieving productivity increases and the synergy benefits that comes from embedding the acquired businesses into the Scott Group. In addition, good people are our greatest asset, which is why we will increase our development and training programmes to build skills and to create the opportunity for growth and progression.

The Company's diversification strategy has been delivered, and the acquisition strategy is well advanced. With the focus shifting towards operational excellence and delivery, the Directors look forward to continuing the growth path set over the past two years.

On behalf of the Company and our colleagues, we thank the Board for their valuable support and guidance throughout the year. We also thank the people at Scott for their commitment to, and efforts towards, achieving our mission and upholding the Company's values. Finally we thank all of our shareholders and other stakeholders for their continuing support which has helped place Scott in the strong position it is in today.

Stuart J McLauchlan
Chairman

Chris C Hopkins
Managing Director

50 YEARS' SERVICE

ROBERT (BOB) HYSLOP

This year Scott had the pleasure of celebrating the long service contribution of Robert (Bob) Hyslop.

Bob (73) retired from Scott in September after five decades of committed service to the company which was acknowledged at a function in Dunedin.

Bob, whose father was also an engineer, showed an interest in engineering from an early age.

He previously worked for seven years at his father's business, Hyslop & Foley, completing his apprenticeship as a Fitter Turner. While still working, he studied hard as an apprentice and passed his Trade Certificate, Advanced Trade Certificate and NZCE (Mech) & NZCE (Prod).

Bob wanted to earn more money than his father was prepared to pay for Bob's qualifications, so he applied for several design engineer jobs that were being advertised in the paper at the time. His ambition was to earn 20 pound ($40) a week. He was successful with three of his applications and had to choose between A & T Burt Ltd, Bonaire Ltd, and J & AP Scott Ltd.

Bob chose to join Scott, which was then known as J&AP Scott, at 23 years old, as a design engineer in the Dunedin drawing office. He went on to become the Chief Design Engineer in Dunedin for 35 years.

Above: Carrol Street staff Christmas function in 1973

Left: Bob in 1984 as the Chief Design Engineer for the Dunedin operation

Following on from being Chief Design Engineer, Bob worked in project management for five years, before moving into his most recent logistics and procurement role.

During his time with the company Bob has witnessed a lot of change in engineering including the introduction of computers, programmable logic controllers, CNC and CAD. In recent years, Bob has seen robotics become "another whole facet" in engineering terms for the company.

We are sure Bob will have no problem filling in his retirement days. Bob's wife Jenny, three children and nine grandchildren will no doubt be seeing a lot more of him. He also plans on continuing his lifelong hobby of music.

Scott senior management team at a recent conference in New Zealand.

LEADERSHIP

Chris Hopkins

Managing Director & CEO

Chris is responsible for the overall day to day operation of Scott and implementation of strategy and business plans. He is the main point of contact for media and analysts and regularly visits key customers to build relationships and assist the sales and marketing process. Chris also leads Scott's search for potential acquisitions, joint ventures and strategic alliances that will help grow Scott in the future.

Barbra Webster

Director - Group R&D Strategy

Barbara joined Scott in 2013 and is responsible for innovation in the Company. She manages new areas of growth as well as research and development, drawing from years of experience in science management and technology commercialisation. Having trained as a materials scientist, Barbara's background now spans the entire commercialisation process from end to end. She has consulted for the infrastructure and engineering industries and is an experienced team builder.

Richard Jenman

Chief Operating Officer

Richard joined Scott in May 2018 as Chief Operating Officer. Richard has broad experience in New Zealand, Australia and the United States leading organisations who manufacture solutions for electrical and mechanical engineering applications, telecommunications and data centre power infrastructure.

Greg Chiles

Chief Financial Officer

Greg joined the company in 2008 and is responsible for the Group's finances, including cash management, financial reporting (both internal and to the NZ Stock Exchange), taxation, insurances, budgeting, internal audit and controls, and foreign exchange hedging. Greg's role also involves undertaking due diligence on any businesses that Scott may be looking to acquire and he attends the Scott Board meetings in the role of Company Secretary.

Casey Jenkins

Director - Global Marketing

Casey joined the company in 2014 and manages the marketing function for Scott. Casey is responsible for the delivery of the overall marketing and communication strategy for the Scott Group and all subsidiary companies and brands. Casey has over 12 years' experience working in marketing roles in both the public and private sector for local and global organisations.

Kate Logan

Human Resources Manager

Kate is responsible for the human resource function. Her responsibility includes advising and supporting leaders with respect to strategic planning; project implementation; and the introduction and management of best practice HR policies and procedures. Kate is an experienced senior human resource practitioner who has worked in public, private and global organisations for over 25 years.

REGIONAL & SALES DIRECTORS

SCOTT

APPRENTICESHIP & GRADUATE PROGRAMMES

Scott offers engineering apprenticeship and graduate roles annually. We employ mechanical, mechatronic and controls engineers to develop and shape the future of our business and the next generation of engineers.

Scott liaises with secondary schools and with polytechnics to gain an understanding of their course material, to endeavour to align it with the Company's requirements. This ensures a consistent sound and practical learning experience for our apprentices on the job.

We provide a comprehensive training programme for our graduates to develop in all of the key skill areas. In addition, all graduates will have the opportunity to spend time in our workshop to ensure practical aligns with the theoretical.

Following the successful completion of our graduate programme, Scott provides the opportunity to specialise in different engineering disciplines and industries.

As well as our comprehensive graduate programs, Scott also offers apprenticeship programmes.

Apprentices are important to the overall workshop development strategy and are employed in the areas of machining, tool making and electrical.

At any one time, there will be 15-20 machining and tool making apprentices working their way through their training programme. Scott has trained unit standard assessors in-house and this is supplemented with external assistance.

Apprentices spend time in many aspects of the business including fabrication, fitting, machine shop surface grinding, manual milling, manual turning through to CNC milling and turning, and commissioning.

"I WANTED TO WORK AT SCOTT BECAUSE THEY ARE A LEADING COMPANY IN THE TECHNOLOGY INDUSTRY. THERE ARE ALWAYS NEW PROJECTS TO WORK ON WHICH MEANS THERE ARE LOTS OF OPPORTUNITIES TO LEARN NEW SKILLS. I ALSO GET THE OPPORTUNITY TO BE INVOLVED IN COMMUNITY EVENTS SUCH AS ROBOCUP"

Heather Robertson – Electrical Apprentice

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Stuart McLauchlan

Chairman & Independent Director

BCom, FCA(PP), CF Inst D
Appointed Director 2007
Dunedin, New Zealand

Stuart McLauchlan is Chairman of AD Instruments Group Ltd, UDC Finance Ltd and University of Otago Foundation Studies Ltd, and a Director of Ngai Tahu Tourism Ltd, Scenic Hotel Group, Argosy Property Ltd and several other companies. He is also Chairman of the NZ Sports Hall of Fame and the Otago Community Hospice.

Chris Hopkins

Managing Director & CEO

BCom, CA, CF Inst D
Appointed Director 2001
Dunedin, New Zealand

Chris Hopkins joined the Donaghys Group, which included Scott Technology Ltd, in 1994 as Corporate Services Manager. In 1996, he assumed responsibility for finance and administration for Scott Technology Ltd and oversaw the transition to a public listed company in 1997. He was appointed a Director of Scott Technology Ltd in August 2001 and Managing Director in 2006. Chris Hopkins is also an independent Director of Oakwood Group Limited.

Brent Eastwood

Director

Appointed Director 2016
Brisbane, Australia

Brent Eastwood was appointed Chief Executive Officer of JBS Australia in September 2012. Prior to this he was Chief Operating Officer for JBS Australia (Northern). Brent Eastwood has extensive international experience in business leadership, and the sales and marketing of animal protein. He has worked in executive roles within JBS USA including Head of JBS Trading Worldwide, Vice-President Beef Sales USA and President of JBS Carriers USA. His prior experience in Australia included time with JBS' predecessor company, Australia Meat Holdings, as General Manager of AMH Trading Division for five years, eight years in meat trading with the DR Johnson Group and three years as CEO of the ConAgra Trade Group in Sydney. Brent Eastwood entered the meat industry in New Zealand in 1984 and spent five years in management roles including Production, Quality Assurance, Cold Storage, Operations and Payroll.

Andre Nogueira

Director

Appointed Director 2016
Greeley, Colorado, USA

Andre Nogueira is President and Chief Executive Officer of JBS USA, the North American and Australian subsidiary of JBS SA, and the second largest global food company, being appointed on 1 January 2013. JBS USA also holds a majority interest in Pilgrim's Pride, the second largest poultry company in the U.S. Andre Nogueira began his career with JBS in 2007, serving as Chief Financial Officer through to 2011. He then served as CEO of JBS Australia throughout 2012. Prior to working for JBS, Andre Nogueira worked for Banco do Brasil in corporate banking positions in the U.S. and Brazil. Andre Nogueira currently serves on the Pilgrim's Pride Corporation Board of Directors, the North American Meat Institute (NAMI) Board of Directors, the NAMI Executive Committee and Rabobank's North American Agribusiness Advisory Board. He has an MBA from Funcado Don Cabral, a Master's in Economics from Brasilia University, a B.A. in Economics from Federal Fluminese University, and has completed the Chicago Booth Advanced Management Program.

Edison Alvares

Director

Appointed Director 2016
Brisbane, Australia

Edison Alvares has over 20 years experience in major companies within Brazil and on a global scale. He holds an Economics degree and Business Administration degree, and concluded his Executive Master of Business Administration (EMBA) in 2015 at Queensland University of Technology (QUT). His area of expertise is Finance and Controlling. For over ten years Edison Alvares has led the Finance and Administration team of JBS Australia, from the first stages of JBS' ownership and expansion in 2007, through to the consolidated business today of over 13,000 employees and revenue in excess of AU$7b. Prior to joining JBS in 2005 in Brazil, he was employed in finance and controlling roles within the telecommunications and capital goods sectors.

John Thorman

Independant Director

BCom, CA, MInst.D
Appointed Director 2018
Auckland, New Zealand

John Thorman is the Managing Director of TMF Group New Zealand and a director of a number of other overseas owned New Zealand businesses. John Thorman has had a successful career with leading global professional services firms working in Europe and New Zealand as well as holding the position of CFO of an internet start-up. John Thorman has considerable experience in assisting companies expand into new markets, acquire and integrate businesses and maintain compliance globally.

John Berry

Alternate Director

Alternate Director for Andre Nogueira, Brent Eastwood & Edison Alvares.
Appointed Alternate Director 2017
Brisbane, Australia

John Berry is a Director and Head of Corporate and Regulatory Affairs, of JBS Australia Pty Limited. John Berry has been involved in the Australian Meat Industry for over 18 years, and has responsibility for industry, government and corporate relations activities within the JBS Australia business. He has also had responsibility for mergers, legals and environmental operations. He possesses a Bachelor of Business Finance and Masters of Business Administration.

ATTENDANCE

This table shows attendances at the Board and committee meetings during the year ended 31 August 2018.

	Board		Health & Safety Committee		Audit Committee		Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Stuart McLauchlan	6	6	6	6	3	3	1	1
John Thorman	2	2	2	2	2	2	1	1
Chris Hopkins	6	6	6	6	3	3	-	-
Brent Eastwood	6	3	6	3	3	1	-	-
Edison Alvares	6	5	6	5	-	-	-	-
Andre Nogueira/ John Berry (as alternate)	6	6	6	6	-	-	-	-
Mark Waller (retired)	3	3	3	3	2	2	-	-
Chris Staynes (retired)	2	2	2	2	1	1	-	-

STATEMENT OF CORPORATE GOVERNANCE

Scott Technology Limited (Scott) believes in the benefit of good corporate governance and the value it provides for our shareholders, customers, staff and other stakeholders.

The Company's approach to applying the recommendations outlined in the NZX Corporate Governance Code (the Code) are set out below. This section is set out in the order of the principles detailed in the Code and explains how Scott is applying the Code's recommendations.

Scott's policy documents referred to in this section are at: www.scottautomation.com/investor-relations/governance

PRINCIPLE 1 – CODE OF ETHICAL BEHAVIOUR

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

CODE OF CONDUCT

As part of the Board's commitment to the highest standards of behaviour and accountability, the Company has adopted a Code of Conduct to guide Directors, senior management and employees in carrying out their duties and responsibilities.

Scott's Code of Conduct is the framework of standards by which the Directors, senior management and employees are expected to conduct their professional lives. It is intended to support decision-making that is consistent with Scott's values, business goals and legal and policy obligations, rather than to prescribe an exhaustive list of acceptable and non-acceptable behaviour.

The Board approves the Code of Conduct, which covers matters such as:

- Interacting with customers, employees and suppliers.
- Accepting gifts or other benefits.
- Dealing with conflicts of interest.
- Protecting Company assets.
- Protecting Company intellectual property.
- Complying with laws and policies.
- Maintaining confidentiality.
- Reporting breaches.

New employees receive a copy of the Code of Conduct, which is accessible to all staff on the Scott intranet and the Company website.

The Company has a whistleblower and protected disclosure policy. The purpose of the policy is to protect an employee who wishes to raise concerns of serious wrongdoing from reprisals or victimisation for reporting their concerns.

FINANCIAL PRODUCT TRADING POLICY

Scott supports the integrity of New Zealand's financial markets. This integrity is maintained, in part, through the insider trading laws that apply in New Zealand. Scott's financial product trading policy outlines how those laws apply, as well as the rules that Scott has put in place so that those laws are followed.

Directors, certain employees and their related parties, must seek approval from the Company to trade in the Company's shares. Trading is prohibited during the following "black-out" periods:

- 30 days prior to Scott's half year balance date, until the first trading day after the half year results are released to NZX;
- 30 days prior to Scott's year end balance date, until the first trading day after the full year results released to NZX; and
- 30 days prior to release of a prospectus for a general public offer of the same class of restricted securities.

The Directors' shareholdings and all trading of shares during the year by the Directors is disclosed in the section of the Annual Report headed Directors' Interests. A Director or senior manager is obliged to advise the NZX promptly if they trade in the Company's shares.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

THE BOARD OF DIRECTORS

The Directors are responsible for the corporate governance practices of the Company. The practices adopted by the Board are prescribed in a Charter that sets out the protocols for how the Board operates.

The Charter complies with the relevant recommendations in the NZX Corporate Governance Code and is reviewed annually.

The Board's primary role is to effectively represent and promote the interests of shareholders with a view to adding long-term value to the Company's shares.

STATEMENT OF CORPORATE GOVERNANCE (cont.)

The Board carries out its responsibilities according to the following mandate:

- The Board should consist of a majority of Non-Executive Directors.
- At least a third of the Directors should be independent of management and free from any business or other relationship or circumstance that could materially interfere with the exercise of a Director's independent judgement.
- The Board's Chair should be a Non-Executive Director (and not the Chief Executive).
- Directors should possess a broad range of skills, qualifications and experience and remain up to date on how best to perform their duties as Directors.
- Management must provide information of sufficient content, quality and timeliness as the Board considers necessary to allow the Board to effectively discharge its duties.
- The effectiveness and performance of the Board and its individual members should be re-evaluated annually.

The Board currently compromises two Non-Executive Independent Directors (Stuart McLauchlan (Chair) and John Thorman), three Directors representing JBS Australia Pty Limited (Andre Nogueira, Brent Eastwood and Edison Alvares) who are not Independent Directors, and one Executive Director (Chris Hopkins) who is not an Independent Director. John Berry is an Alternate Director for Andre Nogueira, Brent Eastwood and Edison Alvares and is not an Independent Director.

More information on the Directors, including their interests, qualifications and shareholdings, is provided in the Directors' Interests section the Annual Report and is on the Company's website.

Day-to-day management of Scott is delegated to the CEO and the senior management team.

THE BOARD'S RESPONSIBILITIES

The primary responsibilities of the Board are to:

- Ensure the Company's goals are clearly established and that strategies are in place for achieving them.
- Establish policies for strengthening the performance of the Company and ensure that management is proactively seeking to build the business.
- Monitor the performance of management.
- Appoint the CEO and set the terms of the CEO's employment agreement.
- Decide on what steps are needed to protect the Company's financial position and its ability to meet its debts and other obligations when they fall due, and ensure that such steps are taken.
- Ensure the Company's financial statements are true and fair and conform with the law.
- Ensure the Company adheres to high standards of ethics and corporate behaviour.
- Ensure the Company has appropriate risk management / regulatory compliance policies in place.

On appointment to the Board by the shareholders, new Directors sign a written agreement that covers the terms of their appointment.

Every year, the Board, including sub-committees, critically evaluate their own performance, and their own processes and procedures, including sub committees. Through this process, the Board identifies any training opportunities for the individual Directors to ensure they have relevant and up-to-date skills for performing their role.

In line with NZX Main Board Listing Rules, one third of the Directors must retire by rotation each year. Scott additionally requires all Executive Directors (including the Managing Director) to be included in the rotation process. These Directors may offer themselves for re-election.

The Governance, Remuneration and Nominations Committee undertakes the process for nominating and appointing Directors on behalf of the Board and makes appropriate recommendations to the Board. The Committee's terms of reference include the process for nominating and appointing Directors.

INDEPENDENT PROFESSIONAL ADVICE

With the prior approval of the Chair, each Director has the right to seek independent legal and other professional advice at the Company's expense about any aspect of the Company's operations or undertakings to assist in fulfilling their duties and responsibilities as Directors.

DIVERSITY

The Board and management ensure that all eligible people get an equal opportunity to demonstrate that they have the right skills and experience for a role and this is the basis of our Diversity Policy.

Scott embraces the uniqueness in all of our people and welcomes diversity. We encourage all of our employees to listen to each other and to our customers and suppliers and to work to meet the needs of individual people.

Our approach to diversity is to continually develop a work environment that supports equality and inclusion, regardless of difference.

The Board sets measurable objectives for assessing performance against Scott's diversity policy and will assess progress annually. The Board will also ensure Scott's objectives are appropriate for promoting diversity and inclusion.

Through this policy, we have achieved the following gender diversity:

- Of the six members of the senior executive team, three are female and three are male (2017: two female and eight male). The senior executive team includes the CEO and his direct reports. *
- Of the 778 Scott employees, 94 are female and 684 are male.

** In July 2018, the senior management team was restructured, following the Alvey and Transbotics acquisitions, resulting in the creation of the senior executive team. At 30 June 2018, the senior management team consisted of 18 members; four females and fourteen males.*

PRINCIPLE 3 – BOARD COMMITTEES

"The Board should use Committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility."

BOARD COMMITTEES

The Board has four standing committees: Audit and Financial Risk; Health and Safety; Governance, Remuneration and Nominations; and Treasury; A separate Independent Directors' Committee meets as needed.

Each Committee operates under specific terms of reference approved by the Board. Any recommendations they make are recommendations to the Board.

The terms of reference for each Committee are reviewed annually.

AUDIT AND FINANCIAL RISK COMMITTEE

The objective of the Audit and Financial Risk Committee (AFRC) is to assist the Board in discharging its responsibilities for financial reporting and risk and financial/secretarial compliance.

The Committee makes recommendations to the Board on appointing external auditors to ensure that they are independent and to ensure that the Company provides for 5-yearly rotation of the lead audit partner.

The Committee provides a forum for the effective communication between the Board and external auditors. The Committee's responsibilities include:

- Reviewing the appointment of the external auditor, the annual audit plan and addressing any recommendations from the audit.
- Reviewing any financial information and dividend proposals to be issued to the public.
- Ensuring that appropriate financial systems and internal controls are in place.

The AFRC must consist of at least three Directors who must wherever possible be Independent Non-Executive Directors. The Board Chair must also not be the Chair of the AFRC. The Chair of the AFRC must be an Independent Director. The current members are John Thorman (Chair), Stuart McLauchlan and Brent Eastwood. Stuart McLauchlan is a Fellow and John Thorman a Member of Chartered Accountants Australia New Zealand.

The Committee generally invites the CEO, Chief Financial Officer and the external auditors to attend AFRC meetings as appropriate. The Committee also meets and receives regular reports from the external auditors without management present, concerning any matters which arise in connection with the performance of their role.

HEALTH AND SAFETY COMMITTEE

The Health and Safety Committee assists the Board in discharging its responsibilities in overseeing and reviewing health and safety matters arising out of Scott's activities and the impact of these activities on staff, contractors and visitors to Scott. The Health & Safety Committee consists of the full Board with Stuart McLauchlan as its Chair.

The Committee recognises the critical role health and safety forms as part of its day-to-day operations and wants to ensure a safety-first culture across all business operations.

The Committee's responsibilities include:

- Considering and approving health and safety strategies, policies and procedures.
- Setting health and safety indicators in consultation with management.
- Ensuring the Board and Directors are properly and regularly informed on matters relating to health and safety governance, performance and compliance.
- Conducting regular assessments and audits of the risk profile and control processes.

GOVERNANCE, REMUNERATION AND NOMINATIONS COMMITTEE

The Governance, Remuneration and Nominations Committee assists the Board in establishing remuneration policies and practices for the Company in discharging the Board's responsibilities for remunerations. The Committee also undertakes the process for nominating and appointing Directors on behalf of the Board, and makes appropriate recommendations to the Board.

The Committee's terms of reference include the process for nominating and appointing Directors.

As at 31 August 2018 the Committee consists of Stuart McLauchlan (Chair) and John Thorman, the Independent Directors. Committee members must be Non-Executive Directors.

Due to a conflict of interest in being the majority shareholder, JBS Australia Pty Ltd and their Board representatives abstain from voting on the appointment of Independent Directors.

Management attends Committee meetings only at the invitation of the Committee.

The Committee's objectives are to:

- Assist the Board in establishing remuneration policies and practices for the Company.
- Assist in discharging the Board's responsibilities for reviewing the CEO and the Directors' remuneration.
- Advise and assist the CEO in setting remuneration for the senior management team.
- Regularly review and recommend changes to the composition of the Board and identify and recommend individuals for nomination as members of the Board and its Committees.

The Directors' and senior management's remuneration are set out in the Directors' Interests section of the Annual Report, and in note F3 of the Financial Statements.

TREASURY COMMITTEE

The Treasury Committee overviews the Company's treasury practices, including foreign exchange cover, short term cash investments and borrowings. The Treasury Committee comprises Stuart McLauchlan (Chair), Chris Hopkins and Edison Alvares.

STATEMENT OF CORPORATE GOVERNANCE (cont.)

INDEPENDENT DIRECTORS' COMMITTEE

The Independent Directors' Committee is convened as needed and consists of Independent Non-Executive Directors who address significant conflicts of interest and any other matters referred by the Board.

Scott has protocols that set out the procedures to be followed if there is a takeover offer. These procedures are set out in the Takeover Response Protocols that have been adopted by the Board.

PRINCIPLE 4 – REPORTING AND DISCLOSURE

"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."

REPORTING AND DISCLOSURE

The Board focusses on providing accurate, adequate and timely information both to existing shareholders and to the market generally. This enables all investors to make informed decisions about the Company.

Scott, as a company listed on the NZX Main Board, has an obligation to comply with the disclosure requirements under the NZX Main Board Listing Rules. Scott recognises that these requirements aim to provide equal access for all investors or potential investors to material price-sensitive information concerning issuers or their financial products. This, in turn, promotes confidence in the market.

Scott's Continuous Disclosure Policy outlines the obligations of Scott and relevant Scott personnel in satisfying the disclosure requirements. It also covers other related matters including external communications by Scott.

Scott publishes its key governance and other relevant documents in the investor centre of the Company's website at scottautomation.com/investor-centre/governance.

All significant announcements made to the NZX and reports issued are also posted on the Company's website.

PRINCIPLE 5 – REMUNERATION

"The remuneration of Directors and executives should be transparent, fair and reasonable."

The Governance, Remuneration and Nominations Committee makes recommendations to the Board on remuneration matters in keeping with the Committee's terms of reference.

The Committee is also responsible for approving the remuneration of the CEO.

The total Director remuneration pool is approved by shareholders at the annual meeting as required under the NZX Main Board Listing Rules. The Board is responsible for the setting of individual Directors' fees in accordance with the permitted pool.

Details of the Directors' remuneration for the year are in the Directors' Interests section of the Annual Report.

Scott has in place a remuneration policy that outlines the key principles that influence Scott's remuneration practices.

The remuneration of the CEO and the senior management team is determined by the significance of their role and industry benchmarking. The total remuneration is made up of fixed remuneration and short-term cash-based incentives, plus long term incentives. The CEO and some members of the senior management team are members of the senior management phantom share scheme (see note C9 of the financial statements).

The short-term incentives are at-risk payments that reward performance. They are designed to motivate and incentivise senior staff in the delivery of performance over a 2-year operating cycle. The amount payable is set annually. The payment of the short-term incentive depends on achieving certain results and outcomes. Performance over the financial year is measured against 'stretch' performance targets. The performance metrics differ with each role.

Every year, the Committee reviews the levels and appropriateness of these incentives and weighting.

The senior management phantom share scheme is a long-term incentive linked to the Company's share price which aligns the long-term interests of both senior management and shareholders, as well as acting as a retention incentive to senior management.

EMPLOYEES' REMUNERATION

The Annual Report details the CEO's remuneration and Scott employees who have earned over $100,000 during the year. The remuneration includes salary, benefits, incentives, both short and long term, and employer's contribution to superannuation.

PRINCIPLE 6 – RISK MANAGEMENT

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

The Board is responsible for overseeing the Company's system of internal controls to manage key risks and have overall responsibility for managing risk.

The Company maintains a group risk register to identify and manage risk. Specific health and safety risk registers for each site are separately maintained given the significance of this area to the business. The senior executive team is responsible for maintaining the risk registers.

Through the AFRC, the Board considers the recommendations and advice of external auditors, and ensures that those recommendations are investigated and, where considered necessary, appropriate action is taken.

The Board recognises the critical role of Cyber Security and the importance of having appropriate systems and processes in place to protect the Company's data, including financial, employee, engineering, supplier and customer data.

PRINCIPLE 7 – AUDITORS

"The Board should ensure the quality and independence of the external audit process:"

The Audit and Financial Risk Committee makes recommendations to the Board on the appointment of the external auditor as set out in the terms of reference. The Committee also monitors the independence and effectiveness of the external auditor and reviews and approves any non-audit services performed by the external auditor.

The Committee regularly meets with the external auditor to approve the terms of engagement, audit partner rotation (at least every 5 years), the and audit fee, and to review and provide feedback on the annual audit plan. Every year, a comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken. The assessment uses an external auditors' assessment tool, which is internationally recognised and endorsed by the Independent Directors Council. The Committee routinely has time with Scott's external auditor, Deloitte, without management present. Deloitte attends the Company's Annual Meeting.

PRINCIPLE 8 – SHAREHOLDER RIGHTS AND RELATIONS

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

INFORMATION FOR SHAREHOLDERS

The Company seeks to ensure that investors understand its activities by communicating effectively with them and providing access to clear and balanced information.

The Company website www.scottautomation.com provides an overview of the business and information about Scott. This information includes details of operational sites, latest news, investor information, key corporate governance information and copies of significant NZX announcements. The website also provides profiles of the Directors and the senior management team.

Copies of previous annual reports, financial statements and results presentations are available on the website.

Shareholders have the right to vote on major decisions of the Company in accordance with requirements set out in the Companies Act 1993 and the NZX Main Board Listing Rules.

COMMUNICATING WITH SHAREHOLDERS

Scott's CEO and Chief Financial Officer develop strong relationships with the investor community and ensure our shareholders are kept informed.

The Company sends the notices of the Annual Meeting to shareholders and publishes it on the Company website at least 20 business days before the meeting each year.

DIRECTORS' INTERESTS

FOR THE YEAR ENDED 31 AUGUST 2018

DIRECTORS' SHAREHOLDING AS AT 31 AUGUST 2018

During the year ended 31 August 2018, the total remuneration and other benefits attributed to the Directors of the Company were as follows:

	Beneficially Owned		Held by Associated Persons		Non-Beneficially Held *** (Jointly)	
	2018	2017	2018	2017	2018	2017
C C Hopkins****	55,964	54,526	5,612,297	5,609,410	17,779	17,779
S J McLauchlan	384,994	375,096	-	-	17,779	17,779
J M Thorman	-	-	-	-	-	-
M B Waller*	n/a	90,562	-	-	-	-
C J Staynes**	n/a	228,375	-	-	-	-
A Nogueira	-	-	-	-	38,476,592	37,415,058
H B Eastwood	-	-	-	-	38,476,592	37,415,058
E Alvares	-	-	-	-	38,476,592	37,415,058
J K Berry (alternate)	-	-		-	38,476,592	37,415,058
Total	**440,958**	**748,559**	**5,612,297**	**5,609,410**		

* *Retired 30 April 2018.*

** *Retired 30 November 2017.*

*** *The non-beneficially held shares that are held jointly by C C Hopkins and S J McLauchlan are in their capacity as trustees for the Scott Technology Employee Share Purchase Scheme. The non-beneficially held shares that are jointly attributed to A Nogueira, H B Eastwood, E Alvares and J K Berry are in their capacity as Directors representing JBS Australia Pty Limited.*

**** *5,500,000 associated persons shares are in C C Hopkins' capacity as a Director of Oakwood Group Limited.*

DIRECTORS' SHARE DEALINGS

The details of disclosures by Directors of acquisitions or disposals of shares Directors held a relevant interest in were:

	Number of Shares Acquired/(Disposed)	Date	Consideration Paid ($'000s)
C C Hopkins (beneficially)	836	28 November 2017	3
C C Hopkins (beneficially)	602	24 April 2018	2
C C Hopkins (associated person)	1,678	28 November 2017	6
C C Hopkins (associated person)	1,209	24 April 2018	4
S J McLauchlan (beneficially)	5,751	28 November 2017	21
S J McLauchlan (beneficially)	4,147	24 April 2018	14

The above share acquisitions were all in relation to the dividend reinvestment plan.

USE OF COMPANY INFORMATION

There were no notices from Directors regarding the use of Company information.

DISCLOSURES OF INTEREST BY DIRECTORS

The following are general disclosures of interest given by Directors of the company under section 140 of the Companies Act 1993:

S J McLauchlan

Analogue Digital Instruments Group	Chairman
BPAC Clinical Solutions Management Ltd	Chairman
Compass Agribusiness Management Ltd	Chairman
Dunedin International Airport Ltd	Chairman
Otago Community Hospice	Chairman
UDC Finance Limited	Chairman
University of Otago Foundation Studies Ltd	Chairman
Woodworks Southern Ltd	Chairman
GS McLauchlan & Co Ltd	Partner/Director
Argosy Property Ltd	Director
Cargill Hotel 2002 Ltd	Director
Dunedin Casinos Ltd	Director
Extra Eight Ltd	Director
Ngai Tahu Tourism Ltd	Director
Openwave Systems (New Zealand) Ltd	Director
QMT Machinery Technology Qingdao Co Ltd	Director
Scenic Circle Group & Subsidiaries	Director
Scott Technology NZ Ltd	Director
Otago Southland Employers Association	Board Member
NZ On Air	Board Member
Scott Technology Employee Share Purchase Scheme	Trustee

H B Eastwood

JBS Australia Pty Ltd and Associated Companies	Chief Executive & Director
Afoofa Development Pty Ltd	Director
Andrews Meat Industries Pty Ltd	Director
Enunga Enterprises Pty Ltd	Director
JBS Holdings Hong Kong Co Ltd	Director
Premier Beehive NZ	Director
Primo Moraitis Fresh Pty Ltd	Director
SPM Fresh 2013 Pty Ltd	Director
SPM Fresh Holdings Pty Ltd	Director
Business Council of Australia	Member

A Nogueira

JBS USA	Chief Executive
Cattle Production Systems Inc	Director
Gold'N Plump Farms, LLC	Director
Gold'N Plump Poultry, LLC	Director
JBS Canada Partners, Inc	Director
JBS Carriers, Inc	Director
JBS Foods Canada, ULC	Director
JBS Finco, Inc	Director
JBS Green Bay, Inc	Director
JBS Live Pork, LLC	Director
JBS Packerland, Inc	Director
JBS Plainwell, Inc	Director
JBS Souderton, Inc	Director
JBS Tolleson, Inc	Director
JBS USA Finance, Inc	Director
JBS USA Food Company	Director
JBS USA Food Company Holdings	Director
JBS USA Leather, Inc	Director
JFC LLC	Director
Miller Bros Co, Inc	Director
Mopac of Virginia, Inc	Director
Pilgrim's Pride Corporation	Director
Pilgrim's Pride, LLC	Director
Poppsa 3, LLC	Director
Poppsa 4, LLC	Director
S&C Resale Company	Director
Sampco, LLC	Director
Sampco Holdings, LLC	Director
Skippack Creek Corporation	Director
Swift & Company International Sales Corporation	Director
Swift Beef Company	Director
Swift Brands Company	Director
Swift Pork Company	Director
JBS Food Canada ULC	Director
TO-RICOS Distribution Ltd	Director
TO-RICOS Ltd	Director
North American Meat Institute	Director
Rabobank's North American Agribusiness Advisory Board	Member

DIRECTORS' INTERESTS (cont.)

E Alvares

JBS Australia Pty Ltd & Associated Companies	Director
Andrews Meat Industries Pty Ltd	Director
JBS (Bejing) Co Ltd	Director
JBS Holdings Hong Kong Co Ltd	Director
Premier Beehive NZ	Director

C C Hopkins

Dunedin Engineering Inc	Chairman
Robotic Technologies Ltd	Chairman
NS Innovations Pty Ltd	Director
Alvey Manex a.s	Director
Alvey NV	Director
Alvey Samovie sasu	Director
Alvey Systems & Services Ltd	Director
Applied Sorting Technologies Pty Ltd	Director
City Forests Ltd	Director
FLS Group bvba	Director
FLS Systems NV	Director
Oakwood Group Ltd	Director
QMT General Partner Ltd	Director
QMT Machinery Technology Qingdao Co Ltd	Director
Rocklabs Ltd	Director
Rocklabs Automation Canada Ltd	Director
Scott Automation Ltd	Director
Scott Automation & Robotics Pty Ltd	Director
Scott LED Ltd	Director
Scott Separation Technology Ltd	Director
Scott Systems International Inc	Director
Scott Systems (Qingdao) Co Ltd	Director
Scott Technology Americas Ltd	Director
Scott Technology Australia Pty Ltd	Director
Scott Technology Belgium bvba	Director
Scott Technology Euro Ltd	Director
Scott Technology Europe Ltd	Director
Scott Technology NZ Ltd	Director
Scott Technology USA Ltd	Director
Scott Technology Employee Share Purchase Scheme	Trustee
Penfold Transmission Ltd	Shareholder

J M Thorman

Attenti New Zealand Ltd	Director
AVC Title Queenstown Ltd	Director
Envision Energy (New Zealand) Ltd	Director
EWNZ Ltd	Director
Halo Business Intelligence Ltd	Director
Haumi Company Ltd	Director
Haumi Development Auckland Ltd	Director
Hikvision New Zealand Ltd	Director
Hoffend International General Partner Ltd	Director
International Paper (New Zealand) Ltd	Director
Kiri General Partner Ltd	Director
LPI Marketing Ltd	Director
Oceanbeach Capital Ltd	Director
Openbet New Zealand Ltd	Director
Ora New Zealand Ltd	Director
Orbcomm New Zealand Ltd	Director
TBM Finance Ltd	Director
Thorman Holdings Ltd	Director
TMF Corporate Services New Zealand Ltd	Director
TMF Fiduciaries New Zealand Ltd	Director
TMF General Partner Ltd	Director
TMF Trustees New Zealand Ltd	Director
Travel Helpline Ltd	Director
Vega Industries Ltd	Director

J K Berry (alternate for A Nogueira, H B Eastwood & E Alvares)

Australian Meat Processor Corporation	Chairman
JBS Australia Pty Ltd & Associated Companies	Director
Andrews Meat Industries Pty Ltd	Director
Premier Beehive NZ	Director

REMUNERATION OF DIRECTORS

During the year ended 31 August 2018, the total remuneration and other benefits attributed to the Directors of the Company were as follows:

	Directors' Fees $'000s	Directors' Salary $'000s	Other Remuneration & Benefits (Short Term) $'000s	Other Remuneration & Benefits (Long Term) $'000s
C C Hopkins*	-	377	230	268
S J McLauchlan	125	-	-	-
J M Thorman	23	-	-	-
M B Waller***	41	-	-	-
C J Staynes***	19	-	-	-
A Nogueira**	-	-	-	-
H B Eastwood**	-	-	-	-
E Alvares**	-	-	-	-
J K Berry (alternate)**	-	-	-	-

* *Denotes an Executive Director who receives a salary.*

** *Remuneration and meeting costs of Directors representing JBS Australia Pty Limited are paid directly by the JBS Group of Companies.*

*** *Up to retirement: C J Staynes, 30 November 2017; M B Waller, 30 April 2018.*

DIRECTORS' INDEMNITY & INSURANCE

The Company has made insurance arrangements covering risks arising out of acts or omissions of Directors and officers in their capacity as such.

GENDER COMPOSITION

The gender composition of the Directors, Officers and Senior Management of the Company as at 31 August was:

	2018		2017	
	Male	Female	Male	Female
Directors (excluding alternate)	6	-	7	-
Executive Officers	3	3	8	2
Senior Management	11	1	9	3
Total	**20**	**4**	**24**	**5**

DONATIONS

The Company made donations of $5,000 during the year (2017: Less than $1,000).

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which present fairly, in all material respects, the consolidated financial position of Scott Technology Limited and its subsidiaries ("the Group") as at 31 August 2018 and the results of their operations and cash flows for the year ended 31 August 2018.

The Directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable them to ensure that the financial statements comply with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors present the financial statements of Scott Technology Limited for the year ended 31 August 2018.

These financial statements are dated 25 October 2018 and are signed in accordance with a resolution of the Directors made pursuant to section 461(1)(b) of the Financial Markets Conduct Act 2013.

For and behalf of the Directors

S J McLauchlan
Chairman

C C Hopkins
Managing Director

FINANCIAL REPORT

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Key judgements and other judgements made

Accounting Policy

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 $'000s	2017 $'000s
Revenue	A1	181,779	132,631
Other operating income	A1	2,064	999
Share of joint ventures' net surplus	E3	510	220
Raw materials, consumables used & operating expenses		(109,381)	(77,340)
Employee benefits expense		(55,171)	(40,143)
OPERATING EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (OPERATING EBITDA)		19,801	16,367
Fair value gain on purchase of business	E1	-	936
Due diligence & acquisition costs	A1	(496)	-
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)		19,305	17,303
Interest received		369	664
Depreciation & amortisation	B4, B6	(4,225)	(2,987)
Finance costs		(403)	(67)
NET SURPLUS BEFORE TAXATION	A1	15,046	14,913
Taxation expense	A2	(4,274)	(4,648)
NET SURPLUS FOR THE YEAR AFTER TAX		10,772	10,265
Other Comprehensive Income/(Deficit)			
Items that may be reclassified to profit or loss:			
Cash flow hedges		(370)	-
Translation of foreign operations		(1,449)	(607)
Total comprehensive income for the year net of tax		8,953	9,658
Net surplus for the year after tax is attributable to:			
Members of the parent entity (used in the calculation of earnings per share)		10,768	9,890
Non controlling interests		4	375
		10,772	10,265
Total comprehensive income is attributable to:			
Members of the parent entity		8,949	9,283
Non controlling interests		4	375
		8,953	9,658
		2018 Cents Per Share	2017 Cents Per Share
Earnings per share (weighted average shares on issue):			
Basic	C2	14.3	13.2
Diluted	C2	14.3	13.2
Net tangible assets per ordinary share (at year end):			
Basic	C2	47.0	73.5
Diluted	C2	47.0	73.5

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2018

	Note	Fully Paid Ordinary Shares $'000s	Retained Earnings $'000s	Foreign Currency Translation Reserve $'000s	Non Controlling Assets $'000s	Cash Flow Hedge Reserve $'000s	Total $'000s
Balance at 31 August 2016		71,312	24,279	(1,660)	669	-	94,600
Net surplus for the year after tax		-	9,890	-	375	-	10,265
Other comprehensive income/(deficit) for the year net of tax		-	-	(607)	-	-	(607)
Dividends paid (9.50 cents per share)		-	(7,095)	-	-	-	(7,095)
Acquisition of minority interest in subsidiary		-	990	-	(997)	-	(7)
Balance at 31 August 2017		71,312	28,064	(2,267)	47	-	97,156
Net surplus for the year after tax		-	10,768	-	4	-	10,772
Other comprehensive income/(deficit) for the year net of tax		-	-	(1,449)	-	(370)	(1,819)
Dividends paid (10.0 cents per share)		-	(7,497)	-	-	-	(7,497)
Issue of shares under dividend reinvestment plan	C1	4,335	-	-	-	-	4,335
Balance at 31 August 2018		75,647	31,335	(3,716)	51	(370)	102,947

BALANCE SHEET

AS AT 31 AUGUST 2018

	Note	2018 $'000s	2017 $'000s
CURRENT ASSETS			
Cash and cash equivalents		12,473	26,670
Trade debtors	B1	37,064	17,833
Other financial assets	C6	1,229	144
Sundry debtors		3,523	947
Inventories	B2	22,825	16,272
Contract work in progress	B3	3,077	4,108
Receivable from joint ventures	E4	2,315	1,909
Plant and equipment held for sale		345	345
		82,851	68,228
NON CURRENT ASSETS			
Property, plant and equipment	B4	16,845	14,249
Capital work in progress		254	319
Investment in joint ventures	E3	928	1,118
Other financial assets	C6	350	-
Goodwill	B5	53,780	29,987
Deferred tax asset	A2	-	969
Intangible assets	B6	15,103	11,311
		87,260	57,953
TOTAL ASSETS		170,111	126,181
CURRENT LIABILITIES			
Trade creditors and accruals	C4	30,322	16,590
Finance lease liabilities	C5	187	30
Other financial liabilities	C6	2,013	1
Employee entitlements	C7, C9	11,286	4,272
Provision for warranty	C8	1,857	1,300
Taxation payable		2,738	3,691
Payable to joint ventures	E4	673	547
Current portion of term loans	C3	3,321	-
Deferred settlement on purchase of business		6,275	-
		58,672	26,431
NON CURRENT LIABILITIES			
Other financial liabilities	C6	964	-
Employee entitlements	C7, C9	1,643	2,568
Finance lease liabilities	C5	159	26
Deferred tax liability	A2	1,638	-
Term loans	C3	4,088	-
		8,492	2,594
EQUITY			
Share capital	C1	75,647	71,312
Retained earnings		31,335	28,064
Foreign currency translation reserve		(3,716)	(2,267)
Cash flow hedge reserve		(370)	-
Equity attributable to equity holders of the parent		102,896	97,109
Non controlling interests		51	47
TOTAL EQUITY		102,947	97,156
TOTAL LIABILITIES & EQUITY		170,111	126,181

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 $'000s	2017 $'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from/(applied to):			
Receipts from operations		178,338	126,908
Interest received		369	664
Net GST paid		(825)	(65)
Payments to suppliers and employees		(172,597)	(111,365)
Interest paid		(403)	(67)
Taxation paid		(4,267)	(2,668)
Net cash inflow from operating activities	F1	615	13,407
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from/(applied to):			
Purchase of non-controlling interest in subsidiary		-	(550)
Purchase of property, plant, equipment and intangible assets		(2,434)	(12,976)
Sale of property, plant and equipment		21	337
Net advances from/(to) joint ventures		420	(293)
Purchase of business	E1	(14,479)	(375)
Repayment of advance to Employee Share Purchase Scheme		-	2
Net cash outflow from investing activities		(16,472)	(13,855)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from/(applied to):			
Repayment of borrowings		(257)	(31)
Dividends paid		(3,162)	(7,095)
Proceeds from borrowings		5,079	-
Net cash inflow/(outflow) from financing activities		1,660	(7,126)
Net decrease in cash held		(14,197)	(7,574)
Add cash and cash equivalents at start of period		26,670	34,244
Balance at end of period		12,473	26,670
Comprised of:			
Cash and bank balances		12,473	26,670

SUMMARY OF ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The consolidated financial statements presented are those of Scott Technology Limited ("Company") and its subsidiaries ("Group").

The Company is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Company is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 and its annual financial statements comply with these Acts.

The Group's principal activities are the design, manufacture, sales and servicing of automated and robotic production lines and processes for a wide variety of industries in New Zealand and overseas.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and, for the purposes of complying with GAAP, it is a for profit entity. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Board of Directors on 25 October 2018.

BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost except for the revaluation of certain financial instruments.

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 August 2018 and the comparative information presented in these financial statements for the year ended 31 August 2017.

There have been no changes in accounting policy during the year.

The information is presented in thousands of New Zealand dollars, which is the functional currency of the Company and the presentation currency of the Group.

CRITICAL JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. There are no significant estimates.

Judgements made by the Directors in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year include:

- Estimating the percentage of completion for long term construction contracts (note A1)
- Goodwill impairment (note B5)
- Valuation of intangibles recognised on acquisition (note E1)

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial report are set out within the particular note to which they relate. These policies have been consistently applied unless otherwise stated.

CONSOLIDATION OF SUBSIDIARIES

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. 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.

The Group financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company and its subsidiaries as defined by NZ IFRS-10 "Consolidated Financial Statements". Consistent accounting policies are employed in the preparation and presentation of the Group financial statements.

Accounting policies of subsidiaries are consistent with the policies of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the Group Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

STANDARDS & INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

In the current year the Group adopted all mandatory new and amended Standards and Interpretations. None of the new and amended standards had a material impact on the amounts recognised in these financial statements.

STANDARDS & INTERPRETATIONS IN ISSUE NOT YET ADOPTED

The Group has reviewed all standards and interpretations to existing standards in issue not yet adopted, with the exception of:

- NZ IFRS 15 Revenue from Contracts with Customers which is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 15 was issued on 3 July 2014 and establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Although the Group has made progress in its implementation of NZ IFRS 15, it is not yet possible to make a reliable estimate of the impact of the new standard on the Group's financial statements as the Group is required to implement significant changes to its systems and processes across the Group in order to collect the new data requirements, as well as compile historical comparatives. The Group intends to apply the standard from the period ending 31 August 2019.

- NZ IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and relaxes the current NZ IAS 39 requirements for hedge accounting. Although the Group has made progress in its implementation of NZ IFRS 9, it is not yet possible to make a reliable estimate of the impact of the new standard on the Group's financial statements. The Group intends to apply the standard from the period ending 31 August 2019.

- NZ IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. Although the Group has made progress in its implementation of NZ IFRS 16, it is not yet possible to make a reliable estimate of the impact of the new standard on the Group's financial statements. The Group intends to apply the standard for the period ending 31 August 2020.

Except for the three standards specified above, the Group does not expect the standards and amendments in issue and not yet adopted will have a material impact on the financial statements.

GOODS & SERVICES TAX & VALUE ADDED TAX ("GST")

All items in the Balance Sheet are stated exclusive of GST, with the exception of receivables and payables, which include GST. All items in the Statement of Comprehensive Income are stated exclusive of GST.

Cash flows are included in the cash flow statement on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and position of each group entity are expressed in New Zealand dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Zealand dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

SECTION A – FINANCIAL PERFORMANCE

A1. INCOME & OPERATING EXPENSES

REVENUE RECOGNITION – LONG TERM PROJECTS

Policy

Profit on long term contracts is accounted for using the percentage of completion method. At balance date an assessment is made of the percentage of completion and costs associated with the work done to date relative to the total forecast cost to complete. Included in revenue is the value attributed to work completed, which includes direct costs, overhead and profit. At the point at which a project is expected to be loss making, losses would be recognised immediately in profit or loss.

Judgement

The estimation of percentage of completion relies on the Directors estimating future time and costs to complete long term contracts. If the actual time and costs incurred to complete the long term contracts differ from the estimates completed by management, the Directors could be over or under estimating the percentage of completion on the project, and consequently revenue and profit to date may also be over or under estimated.

REVENUE RECOGNITION – SALE OF GOODS & OTHER REVENUE

Policy

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer or when services are provided.

GOVERNMENT GRANTS

Policy

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 as other income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

	2018 $'000s	2017 $'000s
(a) Revenue		
Revenue from long term projects	104,756	81,282
Sale of goods	55,446	40,200
Other revenue (including service and short term projects)	21,577	11,149
	181,779	132,631
(b) Other operating income		
Rental income	203	-
Government grants related to research and development	1,861	926
Gain on sale of property, plant and equipment	-	73
	2,064	999
(c) Non recurring income		
Fair value gain on purchase of business	-	936

A1. INCOME & OPERATING EXPENSES (cont.)

(d) Operating expenses		2018 $'000s	2017 $'000s
The surplus is stated after charging:			
Auditor's remuneration	- audit of financial statements	210	151
	- other assurance services	5	9
	- taxation services	55	19
	- due diligence services	271	-

The auditor of the Group is Deloitte Limited

Due diligence services on business combinations have been performed by a Deloitte network firm that is not involved in the Group audit. These are included in Due Diligence & Acquisition Costs in the Statement of Comprehensive Income.

	2018 $'000s	2017 $'000s
Directors' fees	208	193
Superannuation scheme contributions	4,148	2,275
Fair value losses on firm commitments	-	1
Leasing and rental costs	3,027	1,391
Unrealised fair value losses on foreign exchange derivatives	271	-
Loss on disposal of property, plant and equipment	21	-
Fair value losses on derivatives held as fair value hedges	1,579	-
Unrealised fair value losses on interest rate swap contracts	43	-
and after crediting:		
Fair value gains on derivatives held as fair value hedges	-	1
Foreign exchange gains	1,627	269
Unrealised fair value gains on foreign exchange derivatives	-	143
Fair value gains on firm commitments	1,579	-

A2. INCOME TAXES

INCOME TAX RECOGNISED IN NET SURPLUS

Policy

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

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

	2018 $'000s	2017 $'000s
Net surplus before tax	15,046	14,913
Income tax expense calculated at 28% (2017: 28%)	4,213	4,175
Non-deductible expenses	426	439
Research & development tax credits claimed (Australia)	(563)	-
Under provision of income tax in previous year	198	34
Taxation expense	4,274	4,648
Represented by:		
Current tax	2,733	4,447
Deferred tax	1,541	201
	4,274	4,648

PRIMA FACIE TAX RATE

The prima facie tax rate used in the above reconciliation is the corporate tax rate of 28% payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2018 income tax year.

DEFERRED TAX BALANCES

Policy

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or in equity.

A2. INCOME TAXES (cont.)

2018	Opening Balance $'000s	Charged to Income $'000s	Charged to Other Comprehensive Income $'000s	Acquisition of Subsidiary/ Business $'000s	Closing Balance $'000s
Gross deferred tax assets:					
Trade debtors	154	262	-	22	438
Other financial assets	160	(14)	143	194	483
Employee entitlements	1,373	(201)	-	11	1,183
Provisions	799	(284)	-	181	696
Tax losses	539	(532)	-	-	7
	3,025	(769)	143	408	2,807
Gross deferred tax liabilities:					
Inventories	(206)	836	-	-	630
Property, plant and equipment	2,173	(221)	-	-	1,952
Intangible assets	89	157	-	1,617	1,863
	2,056	772	-	1,617	4,445
	969	(1,541)	143	(1,209)	(1,638)

2017	Opening Balance $'000s	Charged to Income $'000s	Acquisition of Subsidiary/ Business $'000s	Closing Balance $'000s
Gross deferred tax assets:				
Trade debtors	129	25	-	154
Inventories	336	(130)	-	206
Other financial assets	(65)	225	-	160
Employee entitlements	1,073	300	-	1,373
Provisions	370	429	-	799
Tax losses	905	(371)	5	539
	2,748	**478**	**5**	**3,231**
Gross deferred tax liabilities:				
Property, plant and equipment	1,145	679	349	2,173
Intangible assets	-	-	89	89
	1,145	**679**	**438**	**2,262**
	1,603	(201)	(433)	969

IMPUTATION CREDIT ACCOUNT BALANCES

	2018 $'000s	2017 $'000s
Imputation credits available to shareholders	1,906	2,567

A3. SEGMENT INFORMATION

Policy

The group has adopted NZ IFRS-8 Operating Segments. NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Board) in order to allocate resources to the segments and to assess its performance.

The Group's Board allocates resources and assesses performance of the Group by manufacturing base, therefore under NZ IFRS-8 the Group's reportable segments are:

- Australasia manufacturing
- Americas manufacturing
- Asia and Europe manufacturing

Australasia is reported as a single segment due to the integrated nature of customers, management, manufacturing, sales and financing activities across New Zealand and Australia.

Americas is reported as a single segment due to the integrated nature of customers, management, manufacturing, sales and financing activities across North and South America.

Asia and Europe is reported as a single segment due to the integrated nature of customers, management, manufacturing and sales activities across Asia and Europe

SEGMENT REVENUES & RESULTS

The following is an analysis of the Group's revenue and results by reportable segment. For the purposes of NZ IFRS-8 allocations are based on the operating results by segment. The Group does not allocate certain resources (such as senior executive management time) and central administration costs by segment for internal reporting purposes and therefore these allocations may not result in a meaningful and comparable measure of profitability by segment.

2018	Australasia Manufacturing $'000s	Americas Manufacturing $'000s	Asia & Europe Manufacturing $'000s	Unallocated $'000s	Total $'000s
Revenue	100,492	29,141	52,146	-	181,779
Segment profit	19,029	3,459	1,745	-	24,233
Due diligence & acquisition costs	-	-	-	(496)	(496)
Depreciation and amortisation	(2,633)	(164)	(941)	(487)	(4,225)
Share of net surplus of joint ventures	268	240	2	-	510
Interest revenue	1	12	-	356	369
Central administration costs	-	-	-	(4,942)	(4,942)
Finance costs	(1)	(8)	(187)	(207)	(403)
Net surplus before taxation	16,664	3,539	619	(5,776)	15,046
Taxation expense	(4,765)	(1,049)	(178)	1,718	(4,274)
Net surplus after taxation	11,899	2,490	441	(4,058)	10,772

A3. SEGMENT INFORMATION (cont.)

2017	Australasia Manufacturing $'000s	Americas Manufacturing $'000s	Asia & Europe Manufacturing $'000s	Unallocated $'000s	Total $'000s
Revenue	99,846	17,055	15,730	-	132,631
Segment profit	19,309	2,068	(509)	-	20,868
Fair value gain on purchase of business (refer Note A1)	-	-	-	936	936
Depreciation and amortisation	(2,267)	(155)	(197)	(368)	(2,987)
Share of net surplus of joint ventures	175	44	1	-	220
Interest revenue	1	-	2	661	664
Central administration costs	-	-	-	(4,721)	(4,721)
Finance costs	(4)	-	-	(63)	(67)
Net surplus before taxation	17,214	1,957	(703)	(3,555)	14,913
Taxation expense	(5,031)	(670)	19	1,034	(4,648)
Net surplus after taxation	12,183	1,287	(684)	(2,521)	10,265

Revenue reported above represents revenue generated from external customers. Inter-segment sales, which are eliminated on consolidation, were $7.1 million for the year ended 31 August 2018 (2017: $7.9 million).

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs and investment revenue.

INDUSTRY INFORMATION

The Group focuses its marketing on five principal industries: appliances, materials handling and logistics, meat processing, mining, and other industrial automation, including robotics. The Group's revenue from external customers by industry is detailed below:

	2018 $'000s	2017 $'000s
Appliances	41,069	26,308
Materials handling and logistics	26,708	-
Meat processing	45,032	39,581
Mining	33,313	26,461
Other industrial automation, including robotics	35,657	40,281
	181,779	132,631

A3. SEGMENT INFORMATION (cont.)

GEOGRAPHICAL INFORMATION

The Group operates in eight principal geographical areas. The Group's revenue from external customers by geographical location (of the customer) is detailed below:

	2018 $'000s	2017 $'000s
New Zealand (country of domicile)	11,840	8,267
North America, including Mexico	51,450	35,614
Australia and Pacific Islands	47,505	49,632
South America	6,270	3,215
Asia	10,609	15,987
Russia and former states	2,983	4,955
Africa and Middle East	4,752	2,327
Other Europe	46,370	12,634
	181,779	132,631

The Group holds $20.2 million of non-current assets in geographical areas outside of New Zealand, the country of domicile (2017: $12.1 million).

INFORMATION ABOUT MAJOR CUSTOMERS

Sales to the Group's largest single customer, who is from the Australasia Manufacturing segment and the Meat industry, accounted for approximately 6.7% of total Group sales (2017: Australasia Manufacturing segment and the Meat Industry 10.6%).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2018

SECTION B – ASSETS

B1. TRADE DEBTORS

Policy

Trade debtors are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

	2018 $'000s	2017 $'000s
Trade debtors	37,625	18,574
Allowance for doubtful debts	(561)	(741)
	37,064	17,833

CREDIT PERIOD

The credit period on sales of goods ranges from 30 to 120 days depending on the terms negotiated by the customer for large contracts. No interest is charged on the trade debtors.

ALLOWANCE FOR DOUBTFUL DEBTS	2018 $'000s	2017 $'000s
Balance at beginning of financial year	741	452
Recovery of trade debtors previously treated as doubtful	(188)	-
Doubtful debts written off	(53)	-
Impairment loss recognised on trade debtors	61	289
Balance at end of financial year	561	741

RECOVERABILITY

In determining the recoverability of trade debtors, the Group considers any change in the credit quality of the trade debtor from the date credit was initially granted up to the reporting date. The Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. All doubtful debts are aged beyond 90 days (2017: all aged beyond 90 days).

PAST DUE BUT NOT IMPAIRED

Included in the Group's trade debtors are debtors with a carrying amount of $10.1 million (2017: $2.9 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are considered recoverable.

Ageing of past due but not impaired:	2018 $'000s	2017 $'000s
30 – 60 days	5,132	981
60 – 90 days	1,048	1,089
90 days +	3,942	831
	10,122	2,901

Projects are invoiced on achieving agreed milestones, however customers may delay payment until agreed warranty issues are resolved, which then impacts on the ageing of past due debtors.

B2. INVENTORIES

Policy

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

	2018 $'000s	2017 $'000s
Raw materials	5,396	3,158
Work in progress	713	416
Finished goods	16,716	12,698
	22,825	16,272

WRITE DOWNS

The cost of inventories recognised as an expense during the year includes $0.3 million (2017: $0.3 million) in respect of write downs of inventory to net realisable value.

B3. CONTRACT WORK IN PROGRESS

Policy

Contract work in progress is recorded as an accumulation of the costs incurred to date, including overhead, plus any recognised profit less amounts received or receivable by way of progress payments on each particular contract.

	2018 $'000s	2017 $'000s
Costs incurred and estimated earnings on uncompleted contracts	205,396	110,372
Progress claims received or receivable	(202,319)	(106,264)
	3,077	4,108
Represented by:		
Sales recognised to be recovered by invoices	24,495	22,761
Contracts invoiced in advance of sales recognised	(21,418)	(18,653)
	3,077	4,108

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2018

B4. PROPERTY, PLANT & EQUIPMENT

Policy

All items of Property, Plant and Equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of a purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a straight line basis so as to write off the net cost of the asset over its expected useful life to its estimated residual value. The following estimated useful lives are used in the calculation of depreciation:

Buildings	40 years
Plant, equipment & vehicles	1 - 13 years

	Freehold Land at Cost $'000s	Freehold Buildings at Cost $'000s	Plant, Equipment & Vehicles at Cost $'000s	Total $'000s
Gross carrying amount				
As at 31 August 2016	2,429	6,980	19,921	29,330
Acquisitions through business combinations	-	-	1,631	1,631
Additions	-	85	1,659	1,744
Disposals	-	-	(1,483)	(1,483)
As at 31 August 2017	2,429	7,065	21,728	31,222
Acquisitions through business combinations	3	629	2,767	3,399
Additions	-	84	1,723	1,807
Disposals	-	-	(533)	(533)
As at 31 August 2018	2,432	7,778	25,685	35,895
Accumulated depreciation & impairment				
As at 31 August 2016	-	1,756	14,743	16,499
Disposals	-	-	(1,220)	(1,220)
Depreciation expense	-	216	1,478	1,694
As at 31 August 2017	-	1,972	15,001	16,973
Disposals	-	-	(490)	(490)
Depreciation expense	-	217	2,350	2,567
As at 31 August 2018	-	2,189	16,861	19,050
Net book value				
As at 31 August 2017	2,429	5,093	6,727	14,249
As at 31 August 2018	2,432	5,589	8,824	16,845

Aggregate depreciation allocated during the year:

	2018 $'000s	2017 $'000s
Freehold buildings	217	216
Plant, equipment and vehicles	2,350	1,478
	2,567	1,694

B5. GOODWILL

Policy

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and identifiable intangible assets, liabilities and contingent liabilities of the subsidiary recognised at the time of acquisition of a business or subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

	2018 $'000s	2017 $'000s
Gross carrying amount:		
Balance at beginning of financial year	29,987	29,911
Additional amounts recognised from business combinations occurring during the period (refer Note E1)	23,793	76
Balance at end of financial year	53,780	29,987

There has been no impairment recognised during the year or in prior periods.

Judgement

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows, particularly in relation to future project wins and market conditions, expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

The Group's cash-generating units are:

- Australasia manufacturing
- Americas manufacturing
- Asia and Europe manufacturing

Australasia is reported as a single cash-generating unit due to the integrated nature of customers, management, manufacturing, sales and financing activities across New Zealand and Australia.

Americas is reported as a single cash-generating unit due to the integrated nature of customers, management, manufacturing, sales and financing activities across North and South America.

Asia and Europe is reported as a single cash-generating unit due to the integrated nature of customers, management, manufacturing and sales activities across Asia and Europe.

B5. GOODWILL (cont.)

Goodwill has been allocated for impairment testing purposes to the cash-generating units:

	2018 $'000s	2017 $'000s
Australasia manufacturing	24,051	24,051
Americas manufacturing	12,522	5,422
Asia and Europe Manufacturing	17,207	514
	53,780	29,987

AUSTRALASIA MANUFACTURING

The recoverable amount of the Australasia Manufacturing cash-generating unit is determined based on a value in use calculation which uses cashflow projections based on financial budgets and forecasts covering a five-year period, and using the Group's approximate weighted average cost of capital as the discount rate. The discount rate used is 10%.

Cashflow projections during the budget and forecast period for the Australasia Manufacturing cash-generating unit are also based on historical gross margins during the budget and forecast period and a constant rate of revenue and materials price inflation during the budget period of 3% reflecting a growing global demand for automation and robotics and consistent with past experience. Cashflows beyond that five year period have been extrapolated using a steady 2% p.a. growth rate. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Australasian Manufacturing cash-generating unit.

AMERICAS MANUFACTURING

The recoverable amount of the Americas Manufacturing cash-generating unit is determined based on a value in use calculation which uses cashflow projections based on financial budgets and forecasts covering a five-year period, and using the Group's approximate weighted average cost of capital as the discount rate. The discount rate used is 10%.

Cashflow projections during the budget and forecast period for the Americas Manufacturing cash-generating unit are also based on historical gross margins during the budget and forecast period and a constant rate of revenue and materials price inflation during the budget period of 3% reflecting a growing global demand for automation and robotics and consistent with past experience. Cashflows beyond that five year period have been extrapolated using a steady 2% p.a. growth rate. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Americas Manufacturing cash-generating unit.

ASIA & EUROPE MANUFACTURING

The recoverable amount of the Asia and Europe Manufacturing cash-generating unit is determined based on a value in use calculation which uses cashflow projections based on financial budgets and forecasts covering a five-year period, and using the Group's approximate weighted average cost of capital as the discount rate. The discount rate used is 10%.

Cashflow projections during the budget and forecast period for the Asia and Europe Manufacturing cash-generating unit are also based on historical gross margins during the budget and forecast period and a constant rate of revenue and materials price inflation during the budget period of 3% reflecting a growing global demand for automation and robotics and consistent with past experience. Cashflows beyond that five year period have been extrapolated using a steady 2% p.a. growth rate. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Asia and Europe Manufacturing cash-generating unit.

B6. INTANGIBLE ASSETS

Policy

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over their estimated useful lives. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets that are acquired in a business combination and recognised separately from goodwill are initially recognised at fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are recognised on the same basis as intangible assets that are acquired separately.

At each balance sheet date, the Group reviews the carrying amounts of its non financial 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). Goodwill is tested for impairment annually. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately unless the asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairment losses in relation to goodwill are not reversed.

B6. INTANGIBLE ASSETS (cont.)

	Conveyor & Palletiser Technology at Cost $'000s	Bladestop Technology at Cost $'000s	URLs at Cost $'000s	Non-Compete at Cost $'000s	HTS Technology at Cost $'000s	Centrifuge Technology at Cost $'000s	Total $'000s
Gross carrying amount							
As at 31 August 2016	-	-	1,492	69	271	-	1,832
Acquisitions through business combinations	-	-	-	-	-	338	338
Additions	-	10,568	-	-	-	-	10,568
As at 31 August 2017	**-**	**10,568**	**1,492**	**69**	**271**	**338**	**12,738**
Acquisitions through business combinations	4,758	-	-	-	-	-	4,758
Additions	681	-	-	-	11	-	692
As at 31 August 2018	**5,439**	**10,568**	**1,492**	**69**	**282**	**338**	**18,188**
Accumulated amortisation and impairment							
As at 31 August 2016	-	-	-	20	114	-	134
Amortisation expense	-	1,261	-	1	25	6	1,293
As at 31 August 2017	**-**	**1,261**	**-**	**21**	**139**	**6**	**1,427**
Amortisation expense	201	1,366	-	6	59	26	1,658
As at 31 August 2018	**201**	**2,627**	**-**	**27**	**198**	**32**	**3,085**
Net book value							
As at 31 August 2017	-	9,307	1,492	48	132	332	11,311
As at 31 August 2018	5,238	7,941	1,492	42	84	306	15,103

ASSETS

Intangible assets comprise:

- Conveyor and palletiser technology used in the materials handling industry purchased through the acquisition of the Alvey business in April 2018 and is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of ten years.
- Bladestop bandsaw safety technology purchased in October 2017 which is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of eight years.
- Domain names (URLs) and a non-compete arrangement resulting from the purchase of the RobotWorx business in May 2014.
- Intangible assets associated with the RobotWorx non-compete arrangement are being amortised on a straight line basis over a fifteen year period, while intangible assets related to the URLs are indefinite life intangibles as the rights to the URLs are held indefinitely and are assessed for impairment annually.
- Intellectual property associated with current leads and flux pumps which were largely acquired on the purchase of HTS-110 Limited and are being amortised over an estimated remaining useful life at the time of purchase of eight years.
- Centrifuge technology used in the honey and fish oil industry purchased through the acquisition of the other joint venture partners' interests in Scott Separation Technology Limited in May 2017 and is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of thirteen years.

The amortisation expense has been included in the line item "depreciation and amortisation" in the Statement of Comprehensive Income.

B7. RESEARCH & DEVELOPMENT COSTS

Policy

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- The technical feasibility of completing the asset so that it will be available for use or sale
- The intention to complete the asset and use or sell it
- The ability to use or sell the asset
- How the asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the asset
- The ability to measure reliably the expenditure attributable to the asset during the development

B8. COMMITMENTS FOR EXPENDITURE

	2018 $'000s	2017 $'000s
Commitments for future capital expenditure for purchase of property, plant and equipment	**4,045**	**139**

In June 2017 Scott Technology Limited announced plans to extend the building and associated facilities at 630 Kaikorai Valley Road, Dunedin, New Zealand with the expectation that it would nearly double the available floor space. As at 31 August 2018 designs have been completed, building consents have been granted, preliminary groundwork is in progress and contracts for the extension have been entered into.

SECTION C – CAPITAL & FUNDING

C1. SHARE CAPITAL

Policy

Equity instruments issued by the Group are recorded at the proceeds received (net of issue costs).

	2018 Number	2017 Number	2018 $'000s	2017 $'000s
Fully paid ordinary shares at beginning of financial year	74,680,754	74,680,754	71,312	71,312
Issue of shares under dividend reinvestment plan	1,222,185	-	4,335	-
Balance at end of financial year	**75,902,939**	**74,680,754**	**75,647**	**71,312**

All shares have equal voting rights and participate equally in any dividend distribution or any surplus on the winding up of the Group.

C2. EARNINGS & NET TANGIBLE ASSETS PER SHARE

	2018 Cents Per Share	2017 Cents Per Share
Earnings per share from continuing operations:		
Basic	14.3	13.2
Diluted	14.3	13.2
Net tangible assets per ordinary share:		
Basic	47.0	73.5
Diluted	47.0	73.5

	2018 $'000s	2017 $'000s
Net surplus for the year used in the calculation of basic and diluted earnings per share from continuing operations	10,768	9,890
Net tangible assets (excluding goodwill, intangible assets and deferred tax)	35,702	54,889

	2018 000s	2017 000s
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share from continuing operations	75,394	74,681
Ordinary shares at year end used in the calculation of net tangible assets per ordinary share (Note C1)	75,903	74,681

C3. BORROWINGS

Policy

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 the profit or loss over the period of the borrowings using the effective interest rate method.

Lender	Currency	Limit 2018 $'000s	Limit 2017 $'000s	Utilised 2018 $'000s	Utilised 2017 $'000s	Interest Rate 2018 %	Interest Rate 2017 %
Working Capital Facilities							
ANZ Bank New Zealand Ltd	NZD	5,000	500	-	-	5.98%	10.50%
BB&T Bank (USA)	USD	752	-	582	-	6.00%	-
		5,752	500	582	-		
Loan Facilities							
ANZ Bank New Zealand Ltd	USD	3,524	-	3,524	-	4.82%	-
Equal monthly principal repayments of US$28,571 over a five year period, followed by a lump sum payment of US$714,286 in May 2023.							
KBC Bank (Belgium)	EUR	878	-	878	-	2.20%	-
Working capital loan, maturing monthly.							
KBC Bank (Belgium)	EUR	483	-	483	-	1.75%	-
Working capital (vacation pay) loan, repayable in equal instalments over one year with a final repayment in July 2019.							
KBC Bank (Belgium)	EUR	241	-	241	-	0.75%	-
Working capital (prepaid tax) loan, repayable in equal instalments over one year with a final repayment in July 2019.							
Ceskoslovenska obchodni banka a.s. (Czech Republic)	CZK	682	-	43	-	4.95%	-
Working capital loan, maturing monthly.							
Participatiemaatschappij Vlaanderen (PMV) (Belgium)	EUR	1,713	-	1,713	-	8.00%	-
Subordinated business development loan taken over on the acquisition of the Alvey business. Repayable in equal quarterly installments of €90,228, with a final lump sum repayment of deferred interest in June 2020. The intention is to repay or refinance this loan through a commercial bank.							
Maarten van Leeuwen	EUR	527	-	527	-	8.00%	-
Subordinated loan from the previous owner of the Alvey business, but under the terms of the PMV loan the Maarten van Leeuwen loan can only be repaid following repayment of the PMV loan. Maarten van Leeuwen is an employee of the business and therefore is a related party.							
		8,048	-	7,409	-		

The outstanding portion of the loan facilities is disclosed in the financial statements as:

	2018 $'000s	2017 $'000s
Current liability	3,321	-
Non current liability	4,088	-
	7,409	-

C3. BORROWINGS (cont.)

Lender	Currency	Limit 2018 $'000s	Limit 2017 $'000s	Utilised 2018 $'000s	Utilised 2017 $'000s
Financial Guarantee & Trade Performance Bonds					
ANZ Bank New Zealand Ltd	Varies	20,400	10,700	7,938	7,634
KBC Bank (Belgium)	EUR	8,775	-	4,569	-
Bank of China	CNY	-	152	-	152
(Refer note F2, Contingent Liabilities)		29,175	10,852	12,507	7,786
Credit Card Facilities					
ANZ Bank New Zealand Ltd	NZD	750	750	101	61
Australia and New Zealand Banking Group Ltd	AUD	328	220	173	178
PNC Bank (USA)	USD	301	139	97	59
KBL Bank (Belgium)	EUR	28	-	1	-
		1,407	1,109	372	298

The total amount of credit card facilities used is included in trade creditors and accruals.

SECURITY

The bank facilities from ANZ Bank New Zealand Limited are secured by general security agreements over all the present and after acquired property of Scott Technology Limited and its subsidiaries, and therefore all property, plant and equipment assets are pledged as security for these facilities. The bank facilities from ANZ Bank New Zealand Limited are also secured by mortgages over the 630 Kaikorai Valley Road, Dunedin and 10 Maces Road, Christchurch properties.

The bank facilities from KBC Bank are secured by a registered pledge on the business assets of Alvey NV for a total of €3.8 million and a registered pledge on the bank guarantee line of 50% of any amount exceeding €3.5 million.

C4. TRADE CREDITORS & ACCRUALS

Policy

Trade creditors are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

	2018 $'000s	2017 $'000s
Trade creditors	18,453	10,866
Accruals	11,869	5,724
	30,322	16,590

Terms

All trade creditors are current and paid within the terms agreed with individual suppliers.

C5. LEASES

OPERATING LEASES

Policy
Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NON CANCELLABLE OPERATING LEASE PAYMENTS

Operating leases relate to vehicles, printers and manufacturing and warehouse facilities with original lease terms of between six months to six years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group has an option to purchase the leased property used for the RobotWorx business and for Alvey's Belgium business.

	2018 $'000s	2017 $'000s
Not later than one year	3,535	1,941
Later than one year and not later than two years	2,303	1,685
Later than two years and not later than five years	3,641	2,624
Later than five years	2,405	399
	11,884	6,649

FINANCE LEASES

Policy
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group Entity as Lessor
Amounts due from finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Group Entity as Lessee
Assets held under finance lease are initially recorded at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset or the lease term, whichever is shorter.

C5. LEASES (cont.)

NON CANCELLABLE FINANCE LEASE PAYMENTS

	Minimum Future Lease Payments		Present Value of Minimum Lease	
	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
Not later than one year	197	31	187	30
Later than one year and not later than five years	164	27	157	26
Later than five years	2	-	2	-
Minimum future lease payments	363	58	346	56
Less future finance charges	(17)	(2)	-	-
Present value of minimum lease payments	346	56	346	56
Classified as:				
Current borrowings			187	30
Non-current borrowings			159	26
			346	56

C6. DERIVATIVES

Policy
Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition depends on the nature of the hedge relationship.

The Group entity designates certain derivatives as hedges of the fair value of firm commitments (fair value hedge) or as hedges of forecast future sales (cash flow hedge). Open firm commitments reflect contractual agreements to provide goods to customers at an agreed price denominated in a foreign currency on specified future dates.

Fair Value Hedge

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss immediately, together with any changes in the fair value of the firm commitment that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires, or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The carrying amount of the firm commitment at that time continues to be recognised as a firm commitment until the forecast transaction ultimately impacts profit or loss.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are 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 the other expenses line.

Amounts recognised in the hedging reserve are reclassified from equity to profit or loss (as a reclassification adjustment) in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the hedging reserve are reclassified from equity and included in the initial measurement of the cost of the asset or liability (as a reclassification adjustment).

C6. DERIVATIVES (cont.)

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 recognised 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 recognised in the hedging reserve is recognised immediately in profit or loss.

	2018 $'000s	2017 $'000s
ASSETS		
At fair value:		
Foreign currency forward contracts held as effective fair value hedges	-	1
Fair value hedge of open firm commitments	1,579	-
Foreign exchange derivatives	-	143
	1,579	144
Represented by:		
Current financial assets	1,229	144
Non current financial assets	350	-
	1,579	144
LIABILITIES		
At fair value:		
Foreign currency forward contracts held as effective fair value hedges	1,579	-
Foreign exchange derivatives	271	-
Foreign currency forward contacts held as cash flow hedges	513	-
Interest rate swap contracts	614	-
Fair value hedge of open firm commitments	-	1
	2,977	1
Represented by:		
Current financial liabilities	2,013	1
Non current financial liabilities	964	-
	2,977	1

C7. EMPLOYEE BENEFITS

Policy

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of employee benefits expected to be settled within twelve months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

C8. PROVISION FOR WARRANTY

Policy

The provision for warranty claims represents the present value of the Directors' best estimate of the future outflow of economic benefits that will be required under the Group's twelve month warranty programme for certain equipment. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

	2018 $'000s	2017 $'000s
Balance at beginning of financial year	1,300	1,100
Provisions recognised on acquisition of business	460	-
Additional provisions recognised	874	550
Reductions arising from payments	(777)	(350)
Balance at end of financial year	1,857	1,300

OBLIGATION

The provision for warranty reflects an obligation for after sales service work in relation to completed contracts and products sold to customers. The provision is expected to be utilised within two years of balance date, however this timing is uncertain and dependent upon the actual level of after sales service work required.

C9. SHARE BASED PAYMENT ARRANGEMENTS

Policy

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

DETAILS OF ARRANGEMENT

The Group has a long term bonus scheme for certain executives and senior employees of the Group. In accordance with the terms of the plan, executives and senior employees who remain in employment with the Group at the vesting dates will be granted a cash incentive based on the movement in Scott Technology Limited's share price from the beginning of the scheme to the vesting date. The fair value of the scheme is measured at year end with reference to the share price. At balance date there is a liability of $2.3 million (2017: $1.4 million) included in employee entitlements in the balance sheet. The impact of the movement in the liability on profit for the year was $0.9 million (2017: $0.8 million) and is included in the employee benefits expenses. No shares or share options in Scott Technology Limited are issued under the plan.

SECTION D – RISK MANAGEMENT

D1. FINANCIAL INSTRUMENTS

Policy
The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past an average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for doubtful debts. When a trade receivable is considered uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's finance function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge certain of these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purpose.

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital and retained earnings.

D1. FINANCIAL INSTRUMENTS (cont.)

The Group has sufficient liquid assets to fund the operational assets. To the extent that additional working capital funding is required the Group has bank facilities available as disclosed in note C3. Where the Group requires funding for a significant capital acquisition, separate funding facilities are established, provided the Directors consider that the Group has adequate equity to support these facilities.

MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward foreign exchange contracts to hedge the exchange rate risk arising on the export of manufactured products.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. The carrying amounts in New Zealand Dollars of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
United States Dollar	20,073	13,169	10,795	2,810
Euros	16,077	2,542	16,198	1,974
Australian Dollar	5,908	8,460	1,491	4,956
Japanese Yen	6	7	-	-
Great Britain Pound	168	1	30	36
Chinese Yuan	3,930	797	2,103	931
Czech Koruna	544	-	1,141	-
	46,706	24,976	31,758	10,707

D1. FINANCIAL INSTRUMENTS (cont.)

FORWARD FOREIGN EXCHANGE CONTRACTS

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions.

The following table details the forward foreign currency (FC) contracts outstanding as at reporting date:

	Average Exchange Rate		Foreign Currency		NZ$ Contract Value		Fair Value	
	2018	2017	2018 FC'000s	2017 FC'000s	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
Foreign currency forward contracts held as effective fair value hedges								
Sell United States Dollars								
Less than 3 months	0.6929	0.7204	1,315	79	1,898	110	(80)	(1)
3 to 6 months	0.6951	0.6999	6,084	1,275	8,753	1,822	(392)	35
6 to 12 months	0.7003	0.6921	10,217	823	14,590	1,189	(725)	34
1 to 2 years	0.7010	-	5,275	-	7,525	-	(350)	-
			22,891	2,177	32,766	3,121	(1,547)	68
Sell Euros								
Less than 3 months	-	0.6511	-	118	-	181	-	(16)
3 to 6 months	0.5789	0.6461	56	59	97	91	(3)	(8)
			56	177	97	272	(3)	(24)
Sell Australian Dollars								
Less than 3 months	0.9343	0.9059	656	1,400	702	1,545	(14)	1
3 to 6 months	0.9333	0.9048	525	1,470	562	1,625	(10)	2
6 to 12 months	0.9333	0.9330	263	1,444	282	1,548	(5)	(46)
			1,444	4,314	1,546	4,718	(29)	(43)
					34,409	8,111	(1,579)	1
Foreign exchange derivatives								
Sell United States Dollars								
Less than 3 months	0.6963	0.6972	1,540	2,459	2,212	3,527	(105)	86
3 to 6 months	0.7202	0.6843	1,675	573	2,326	837	(192)	35
6 to 12 months	-	0.7012	-	1,820	-	2,595	-	39
			3,215	4,852	4,538	6,959	(297)	160
Sell Euros								
Less than 3 months	0.5808	-	92	-	158	-	(4)	-
3 to 6 months	0.5662	-	6,930	-	12,239	-	(106)	-
			7,022	-	12,397	-	(110)	-
Buy Euros								
Less than 3 months	0.5840	-	2,793	-	4,783	-	136	-
Sell Australian Dollars								
Less than 3 months	-	0.9346	-	525	-	562	-	(17)
					21,718	7,521	(271)	143

D1. FINANCIAL INSTRUMENTS (cont.)

	Average Exchange Rate		Foreign Currency		NZ$ Contract Value		Fair Value	
	2018	2017	2018 FC'000s	2017 FC'000s	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
Foreign currency forward contracts held as cash flow hedges								
Sell United States Dollars								
Less than 3 months	0.6919	-	3,000	-	4,336	-	(177)	-
3 to 6 months	0.6888	-	3,000	-	4,356	-	(154)	-
6 to 12 months	0.6901	-	5,165	-	7,485	-	(264)	-
			11,165	-	16,177	-	(595)	-
Sell Australian Dollars								
Less than 3 months	0.8994	-	2,250	-	2,502	-	46	-
3 to 6 months	0.8994	-	1,750	-	1,946	-	36	-
			4,000	-	4,448	-	82	-
					20,625	-	(513)	-

The fair value of foreign exchange contracts outstanding is recognised as other financial assets/liabilities.

INTEREST RATE SWAP CONTRACTS

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued floating rate debt. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at 31 August.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at 31 August.

Outstanding receive floating pay fixed contracts

	Average Contracted Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2018 %	2017 %	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
5 years +	2.17%	-	3,376	7,521	(614)	-

The interest rate swap contract obligation was taken over through the acquisition of the Alvey business. The loan facility is not currently being used.

D1. FINANCIAL INSTRUMENTS (cont.)

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group is mainly exposed to the United States Dollar, the Euro, the Australian Dollar and the Chinese Yuan.

The following table details the Group's sensitivity to a 10% increase and decrease in the New Zealand Dollar against the relevant foreign currencies. 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and equity where the New Zealand Dollar weakens 10% against the relevant currency.

	10% Increase in New Zealand Dollar		10% Decrease in New Zealand Dollar	
	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
United States Dollar	(474)	(340)	474	340
Euro	(450)	(57)	450	57
Australian Dollar	(442)	(294)	442	294
Japanese Yen	(1)	-	1	-
Great Britain Pound	(14)	-	14	-
Chinese Yuan	(182)	(13)	182	13
Czech Koruna	60	-	(60)	-

These movements are mainly attributable to the exposure to outstanding foreign currency bank accounts, receivables, payables and derivatives at year end in the Group.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

CREDIT RISK MANAGEMENT

In the normal course of business, the Group incurs credit risk from trade receivables and transactions with financial institutions. The Group has a credit policy which is used to manage this exposure to credit risk, including requiring payment prior to shipping to high credit risk countries and customers, the use of Export Credit Office financing facilities and customer credit checks. The Group, as a result of the industries in which they operate, can be exposed to significant concentrations of credit risk from trade receivables and counterparty risk with the bank in relation to the outstanding forward exchange contracts. They do not require any collateral or security to support financial instruments as these represent deposits with, or loans to, banks and other financial institutions with high credit ratings.

At year end the amount receivable from the five largest trade debtors is $7.9 million (2017: $3.8 million).

The maximum credit risk of on balance sheet financial instruments is their carrying amount.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

LIQUIDITY & INTEREST RATE RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note C3 are details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

There is no reasonable movement in interest rates that could have a material impact on the financial statements.

D1. FINANCIAL INSTRUMENTS (cont.)

The following table details the Group's remaining undiscounted contractual maturity for its non derivative financial liabilities. The tables below 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 tables include both interest and principal cash flows.

	Weighted Average Effective Interest Rate %	On Demand $'000s	Less than 1 Year $'000s	1-2 Years $'000s	2-3 Years $'000s	3-5 Years $'000s	5+ Years $'000s	Total $'000s
2018								
Financial Liabilities								
Finance lease liabilities	3.89%	-	197	97	44	23	2	363
Term loans	5.14%	591	3,000	1,798	624	2,113	-	8,126
Deferred settlement on purchase of business	-	-	6,275	-	-	-	-	6,275
Payable to joint ventures	-	-	673	-	-	-	-	673
Trade creditors & accruals	-	30,322	-	-	-	-	-	30,322
		30,913	10,145	1,895	668	2,136	2	45,759
2017								
Financial Liabilities								
Finance lease liabilities	3.47%	-	31	12	8	7	-	58
Payable to joint ventures	-	-	547	-	-	-	-	547
Trade creditors & accruals	-	16,590	-	-	-	-	-	16,590
		16,590	578	12	8	7	-	17,195

The Group has access to financing facilities, of which the total unused amount is $23.3 million at the balance sheet date (2017: $4.4 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

FAIR VALUE MEASUREMENTS RECOGNISED IN THE BALANCE SHEET

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 on the degree to which fair value is observable:

The fair values of financial assets and financial liabilities are determined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and;
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of forward exchange contracts and options is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity and options of the contract using a market rate of interest.

D1. FINANCIAL INSTRUMENTS (cont.)

	Level 1 $'000s	Level 2 $'000s	Level 3 $'000s	Total $'000s
2018				
Financial assets at fair value through profit and loss				
Fair value hedge of open firm commitments	-	1,579	-	1,579
Financial liabilities at fair value through profit and loss				
Foreign currency forward contracts held as effective fair value hedges	-	(1,579)	-	(1,579)
Foreign exchange derivatives	-	(271)	-	(271)
Foreign currency forward contracts held as cash flow hedges	-	(513)	-	(513)
Interest rate swap contracts	-	(614)	-	(614)
	-	(1,398)	-	(1,398)
2017				
Financial assets at fair value through profit and loss				
Foreign currency forward contracts held as effective fair value hedges	-	1	-	1
Foreign exchange derivatives	-	143	-	143
Financial liabilities at fair value through profit and loss				
Fair value hedge of open firm commitments	-	(1)	-	(1)
	-	143	-	143

FAIR VALUE

The fair value of financial instruments not already measured at fair value approximates their carrying value.

SECTION E – GROUP STRUCTURE & SUBSIDIARIES

E1. ACQUISITION OF BUSINESS

BUSINESS ACQUIRED

Name	Principal Activity	Location	Date of Acquisition	Proportion of Shares / Assets Acquired	Cost of Acquisition $'000s
Alvey	Materials handling & logistics automation	Europe	23 April 2018	100%	19,303
Transbotics	Automated guided vehicles	USA	31 May 2018	100%	4,873

The Alvey acquisition was by way of the purchase of 100% of the shares in various Alvey group companies, while the Transbotics acquisition was by way of the purchase of the net business assets. Both businesses acquired were for the purpose of expanding the Group's business in key geographies and to expand and enhance the solutions that the Group can offer to its customers.

ANALYSIS OF ASSETS & LIABILITIES ACQUIRED AND PROVISIONAL FAIR VALUES

	Alvey			Transbotics			
	Book Value $'000s	Fair Value Adjustment $'000s	Fair Value on Acquisition $'000s	Book Value $'000s	Fair Value Adjustment $'000s	Fair Value On Acquisition $'000s	Total Fair Value on Acquisition $'000s
Assets & Liabilities							
Cash & bank balances	4,039	-	4,039	-	-	-	4,039
Trade debtors & other receivables	11,992	-	11,992	1,429	(105)	1,324	13,316
Inventories	946	-	946	827	-	827	1,773
Plant & equipment	3,475	(220)	3,255	144	-	144	3,399
Intangible assets	4,548	210	4,758	-	-	-	4,758
Contract work in progress	1,609	(1,391)	218	(1,893)	(168)	(2,061)	(1,843)
Bank overdraft	-	-	-	(558)	-	(558)	(558)
Trade creditors & accruals	(12,175)	-	(12,175)	(1,179)	(573)	(1,752)	(13,927)
Taxation payable	(582)	-	(582)	-	-	-	(582)
Provision for warranty	(173)	-	(173)	-	(287)	(287)	(460)
Employee entitlements	(4,797)	-	(4,797)	(78)	-	(78)	(4,875)
Financial liabilities	-	(571)	(571)	-	-	-	(571)
Finance leases	(379)	-	(379)	-	-	-	(379)
Term loans	(2,498)	-	(2,498)	-	-	-	(2,498)
Deferred tax	-	(1,423)	(1,423)	-	214	214	(1,209)
Total assets & liabilities	6,005	(3,395)	2,610	(1,308)	(919)	(2,227)	383
Goodwill on acquisition			16,693			7,100	23,793
Cost of acquisition			19,303			4,873	24,176

COST OF ACQUISITION

The cost of acquisition of the Alvey and Transbotics businesses was paid in a combination of cash and a deferred portion.

	Alvey $'000s	Transbotics $'000s	Total $'000s
Cash	14,522	3,438	17,960
Deferred settlement on purchase of business	4,781	1,435	6,216
	19,303	4,873	24,176

The deferred settlement on the Alvey business is contingent on the vendor and the acquirer completing agreed post-acquisition conditions of the sale agreement. The deferred settlement on the Transbotics business is contingent on the business achieving agreed revenue targets. The fair values on acquisition are based on the expectation that all post-acquisition conditions and targets will be met.

E1. ACQUISITION OF BUSINESS (cont.)

IMPACT OF ACQUISITION ON THE RESULTS OF THE GROUP

Included in the Group financial statements is revenue of $26.7 million and an operating EBITDA of $0.9 million attributable to the purchase of the Alvey business and revenue of $4.0 million and an operating EBITDA of $0.8 million attributable to the purchase of the Transbotics business.

Had these acquisitions been effected at 1 September 2017, the revenue of the Group from continuing operations would have been approximately $225 million and the operating EBITDA would have been approximately $22 million. The Directors of the Group consider these ''pro-forma' numbers to represent an approximate measure of the performance of the combined Group on an annualised basis and to provide a reference point for comparison in future periods.

NET CASH OUTFLOW ON ACQUISITION

	Alvey $'000s	Transbotics $'000s	Total $'000s
Total purchase consideration paid in cash	14,522	3,438	17,960
Overdraft/(cash at bank) acquired	(4,039)	558	(3,481)
Net cash outflow on acquisition	**10,483**	**3,996**	**14,479**

GOODWILL ARISING ON ACQUISITION

The consideration paid for the acquisition of Alvey and Transbotics businesses effectively included amounts in relation to the benefit of expected synergies, current product development and knowhow. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be readily measured and they do not meet the definition of identifiable intangible assets. It will not be deductible for tax purposes.

FAIR VALUE GAIN ON PURCHASE OF BUSINESS

In 2017 the inventories, plant and equipment of the DC Ross business were purchased from DC Ross' receivers for an agreed total value which was less than market value resulting in a fair value gain on acquisition.

Judgement

The Group acquired a 100% equity interest in Alvey and the business of Transbotics between April and May 2018 for $24.2 million. Due to the timing of the acquisitions, the acquisition accounting fair value adjustments have been identified as being on a provisional basis. On completion of final valuations the balances for the acquisition may be revised since the valuation exercise is not yet finalised.

The provisional fair value of intellectual property was based on a valuation performed at acquisition. The intellectual property was provisionally valued using the relief from royalty method. Key assumptions used in the valuation were: royalty rate of 5% to 12%, depending on the nature of the intellectual property being valued; cashflow projections based on financial budgets and forecasts covering a five year period and an annual revenue growth rate of 2% beyond the initial five year period for a further five years; and a discount rate of 12% to 20%, depending on the nature of the intellectual property being valued.

E2. SUBSIDIARIES

Name of Entity	Balance Date	Country of Incorporation	Ownership Interest & Voting Rights 2018 %	2017 %
Parent Entity				
Scott Technology Limited (i)	31 August	New Zealand		
New Zealand Trading Subsidiaries				
Scott Technology NZ Limited (ii)	31 August	New Zealand	100	100
Scott Automation Limited (iii)	31 August	New Zealand	100	100
Scott Technology USA Limited (iv)	31 August	New Zealand	100	100
QMT General Partner Limited (v)	31 August	New Zealand	93	93
QMT New Zealand Limited Partnership (vi)	31 August	New Zealand	92	92
Scott Separation Technology (vii)	31 August	New Zealand	100	100
Scott Technology Americas Limited (viii)	31 August	New Zealand	100	-
Scott Technology Europe Limited (ix)	31 August	New Zealand	100	-
New Zealand Non Trading Subsidiaries				
Scott LED Limited	31 August	New Zealand	100	100
Rocklabs Limited	31 August	New Zealand	100	100
Overseas Subsidiaries				
Scott Technology Australia Pty Ltd (x)	31 August	Australia	100	100
Applied Sorting Technologies Pty Ltd (xi)	31 August	Australia	100	100
Scott Automation & Robotics Pty Ltd (xii)	31 August	Australia	100	100
QMT Machinery Technology (Qingdao) Co Limited (xiii)	31 December (*)	China	70	70
Scott Systems International Incorporated (xiv)	31 August	USA	100	100
Scott Systems (Qingdao) Co Limited (xv)	31 December (*)	China	95	95
Scott Technology GmbH (xvi)	31 December (*)	Germany	100	100
Scott Technology Belgium bvba (xvii)	31 August	Belgium	100	-
Alvey NV (xviii)	31 March	Belgium	100	-
FLS Group bvba (xix)	31 December	Belgium	100	-
FLS Systems NV (xx)	31 December	Belgium	100	-
Alvey do Brazil Comercio de Maquinas de Automacao (xxi)	31 December	Brazil	100	-
Alvey Manex a.s. (xxii)	31 March	Czech Republic	100	-
Alvey Samovie sasu (xxiii)	31 March	France	100	-
Alvey Systems & Services Limited (xxiv)	31 March	United Kingdom	100	-

(*) Determined by local regulatory requirements

E2. SUBSIDIARIES (cont.)

New Zealand Trading Subsidiaries

(i) Scott Technology Limited is the ultimate parent entity of the Group. It is an investment holding company and owns all New Zealand properties.

(ii) Scott Technology NZ Limited is the main trading company for New Zealand operations, including the design and manufacture of automated and robotic systems (under the "Scott" brand), the service and upgrade of Scott equipment worldwide (under the "Scott Service International" brand), the manufacture and sale of automated laboratory sampling equipment for the mining industry (under the "Rocklabs" brand) and development, design and manufacture of high temperature superconductor equipment (under the "HTS-110" brand).

(iii) Scott Automation Limited's principal activity is the design and manufacture of automation systems.

(iv) Scott Technology USA Limited is a financing subsidiary for the USA businesses, as well as owning a number of domain names (URLs) associated with the RobotWorx business.

(v) QMT General Partner Limited is the general partner for the QMT New Zealand Limited Partnership and directly owns 1% of QMT New Zealand Limited Partnership.

(vi) QMT New Zealand Limited Partnership is an investment holding entity and owns 75% of QMT Machinery Technology (Qingdao) Co Limited.

(vii) Scott Separation Technology Limited develops and markets patented centrifuge technology with particular application to the honey and fish processing industries.

(viii) Scott Technology Americas Limited is a holding company for Americas operations

(ix) Scott Technology Europe Limited is a holding company for European operations

Overseas Subsidiaries

(x) Scott Technology Australia Pty Limited is a holding company for Australian activities.

(xi) Applied Sorting Technologies Pty Limited's principal activity was the manufacture and sale of x-ray and sorting technology. These activities are now conducted through Scott Automation & Robotics Pty Limited.

(xii) Scott Automation & Robotics Pty Limited is the main trading company for Australia operations, designing and manufacturing automated and robotic systems.

(xiii) QMT Machinery Technology (Qingdao) Co Limited is a general engineering business located in Qingdao, China. The woodworking lathes and parts business has ceased and the automation engineering business has been transferred to Scott Systems (Qingdao) Co Limited. The company is currently being wound up.

(xiv) Scott Systems International Incorporated's principal activities are in North America for the sale of robot systems under the "RobotWorx" brand, the design and manufacture of automated guided vehicles under the "Transbotics" brand and undertaking sales and service for the wider Group.

(xv) Scott Systems (Qingdao) Co Limited is a general engineering business located in Qingdao, China.

(xvi) Scott Technology GmbH designs and manufactures automation and robotic systems and is located in Kurnbach, Germany.

(xvii) Scott Technology Belgium bvba is a holding company for Belgium operations.

(xviii) Alvey NV designs and manufactures automation and robotic systems and is located in Deerlijk, Belgium.

(xix) FLS Group bvba designs and manufactures automation and robotic systems and is located in Deerlijk, Belgium.

(xx) FLS Sysytems NV designs and manufactures automation and robotic systems and is located in Deerlijk, Belgium.

(xxi) Alvey do Brazil Comercio de Maquinas de Automacao is a non-trading Brazilian subsidiary.

(xxii) Alvey Manex a.s. is a general engineering business located in Podivin, Czech Republic.

(xxiii) Alvey Samovie sasu's principal activity is the sale and service of automated and robotic equipment and is based in Ploemeur and Marseille, France.

(xxiv) Alvey Systems & Service Limited's principal activity us the sale and service of automated and robotic equipment and is based in Warrington and Glasgow, United Kingdom.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2018

E3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

INTERESTS IN JOINT VENTURES

Policy

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 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. In assessing the Group's share of the profit or loss or other comprehensive income of the joint venture, the Group's share of any unrealised profits or losses on transactions between Group companies and the joint venture is eliminated. 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 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. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Name of Entity	Country of Incorporation	Ownership Interest		Carrying Value	
		2018 %	2017 %	2018 $'000s	2017 $'000s
Robotic Technologies Limited (i)	New Zealand	50	50	552	983
Scott Technology Euro Limited (ii)	Ireland	50	50	80	78
NS Innovations Pty Limited (iii)	Australia	50	50	-	-
Scott Technology S.A. (iv)	Chile	50	50	7	50
Rocklabs Automation Canada Limited (v)	Canada	50	50	289	7
Balance at end of financial year				**928**	**1,118**

(i) Scott Technology Limited's joint venture with Silver Fern Farms Limited, Robotic Technologies Limited (RTL), was formed in October 2003 and has a balance date of 31 August. RTL's principal activity is the marketing and development of (primarily) lamb meat processing equipment and the management of the intellectual property associated with these developments. Scott Technology Limited's share of RTL's net surplus was $268,000 (2017: $176,000) and RTL paid a dividend to Scott Technology Limited of $700,000 (2017: $Nil).

(ii) Scott Technology Euro Limited (STEL) is a European sales agency for Scott Technology Limited and is a joint venture between Scott Technology Limited and Industrial Process Solution of Italy. STEL was formed in 2009 and has a balance date of 31 August. Scott Technology Limited's share of STEL's net surplus was $2,000 (2017: $1,000).

(iii) NS Innovations Pty Limited (NSIL) is a joint venture between Scott Technology Limited and Northern Co-Operative Meat Company Limited of Australia. NSIL was formed in August 2009 and has a balance date of 30 June, in line with Australian tax rules. NSIL's principal activity was the marketing and development of (primarily) beef meat processing equipment and the management of the intellectual property associated with these developments. NSIL is no longer operating and is in the process of being wound up. Scott Technology Limited's share of NSIL's net surplus was $Nil (2017: $Nil).

E3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont.)

(iv) Scott Technology S.A. (STSA) is a joint venture between Scott Technology Limited and Canadian private company STG Holdings Limited. STSA commenced trading in June 2014 and has a balance date of 31 August. STSA is a sales agency for mining equipment in the Americas and is based in Chile. Scott Technology Limited's share of STSA's net deficit was $42,000 (2017: share of net deficit $38,000).

(v) Rocklabs Automation Canada Limited (RAC) is a joint venture between Scott Technology Limited and Canadian private company STG Holdings Limited. RAC commenced trading in 2013 and has a balance date of 31 August. RAC is a sales agency for mining equipment in North America. Scott Technology Limited's share of RAC's net surplus was $282,000 (2017: $82,000).

Carrying value of equity accounted investments:	2018 $'000s	2017 $'000s
Balance at beginning of financial year	1,118	923
Share of net surplus	510	220
Share of dividends	(700)	-
Sale of interest in joint venture	-	(25)
Balance at end of financial year	928	1,118

	Joint Ventures	
Summarised statement of comprehensive income of joint ventures from continuing operations:	2018 $'000s	2017 $'000s
Income	16,945	12,136
Expenses	(15,925)	(11,696)
Net surplus and total comprehensive income	1,020	440
Group share of net surplus	510	220

	Joint Ventures	
Summarised balance sheets of joint ventures:	2018 $'000s	2017 $'000s
Current assets	3,851	3,937
Non-current assets	1,964	1,731
Current liabilities	(1,601)	(2,049)
Non-current liabilities	(2,316)	(1,349)
Net assets	1,898	2,270
Group share of net assets	949	1,135

RTL, STEL, NSIL, STSA and RAC do not have any contingent assets, contingent liabilities or commitments for capital expenditure. The Group is not jointly and severally liable for any of the joint ventures' liabilities.

E4. RELATED PARTY TRANSACTIONS

Joint Ventures:	2018 $'000s	2017 $'000s
Project work undertaken by the Group for RTL	6,092	8,095
Administration, sales and marketing fees charged by the Group to RTL	234	173
Sales revenue received by RTL from the Group	13,616	8,875
Advance from RTL to Scott Technology	(585)	(371)
Interest charged by RTL to Scott Technology on advance	96	29
Administration fees charged by the Group to STEL	6	6
Commission received by STEL from the Group	211	199
Advance from STEL to Scott Technology	(88)	(176)
Project work undertaken by the Group for SSTL	-	2
Project work undertaken by the Group for STSA	406	1,466
Advance from Scott Technology to STSA	1,298	1,223
Project work undertaken by the Group for RAC	2,459	1,583
Advance from Scott Technology to RAC	1,017	686

ADVANCES

Advances to/from joint ventures are unsecured, interest free and repayable on demand.

DIRECTORS

C C Hopkins and S J McLauchlan are trustees of the Scott Technology Employee Share Purchase Scheme. The balance of the interest free advance owing to the scheme at 31 August 2018 was $3,000 (2017: $4,000). During the year no shares vested with employees and no shares (2017: no shares) which had not vested with employees were disposed of at market value. As at 31 August 2018 17,779 (2017: 17,779) shares were being held on trust which had vested with the Trustees upon the resignation of employees during the period of the Scheme and are available for sale. These shares have been treated as equity under share capital.

SUBSTANTIAL SHAREHOLDERS

C C Hopkins is a Director of Oakwood Group Limited, which owns Oakwood Securities Limited, a substantial shareholder of Scott Technology Limited. C C Hopkins has received Directors' fees of $21,000 from Oakwood Group Limited during the year (2017: $17,000).

JBS Australia Pty Limited owns a 50.1% shareholding in Scott Technology Limited. The Group has recognised sales to JBS Companies of $5.6 million (2017: $3.2 million) and has made purchases from JBS Companies of $1.8 million (2017: $2.5 million).
As at balance date the Group had $0.8 million receivable from JBS Companies (2017: $1.4 million).

SECTION F – OTHER DISCLOSURES

F1. NOTES TO THE CASH FLOW STATEMENT

Policy
The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income.

Definition of terms used in the Statement of Cash Flows:

- Cash includes cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value, net of bank overdrafts.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.
- Financing activities are those activities relating to changes in the equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity.

	2018 $'000s	2017 $'000s
Net surplus for the year	10,772	10,265
Adjustments for non-cash items:		
Depreciation and amortisation	4,225	2,987
Net loss/(gain) on sale of property, plant and equipment	21	(73)
Deferred tax	1,541	201
Share of net surplus of joint ventures and associates	(510)	(220)
Fair value gain on purchase of business	-	(936)
Add / (less) movement in working capital:		
Trade debtors	(19,231)	(2,000)
Other financial assets – derivatives	(1,435)	1,332
Sundry debtors	(2,576)	174
Inventories	(6,553)	(3,929)
Contract work in progress	1,031	(5,245)
Taxation payable	(953)	1,779
Trade creditors and accruals	13,732	8,228
Other financial liabilities – derivatives	2,463	(619)
Employee entitlements	6,089	1,195
Provision for warranty	557	200
Movements in working capital disclosed in investing/financing activities:		
Working capital relating to purchase of business and non controlling interest	(7,109)	675
Movement in foreign exchange translation reserve relating to working capital	(1,449)	(607)
Net cash inflow from operating activities	615	13,407

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2018

F1. NOTES TO THE CASHFLOW STATEMENT (cont.)

RECONCILIATION OF MOVEMENT IN DEBT FACILITIES

	1 September 2017 $'000s	Acquisitions $'000s	Net Drawings $'000s	Net Repayment $'000s	31 August 2018 $'000s
Bank loans	-	2,498	5,079	(168)	7,409
Finance leases	56	379	-	(89)	346
	56	2,877	5,079	(257)	7,755

F2. CONTINGENT LIABILITIES

	2018 $'000s	2017 $'000s
Payment guarantees and performance bonds	12,432	7,711
Stock Exchange bond	75	75
Maximum contract penalty clause exposure	6,979	1,501

Payment guarantees are provided to customers in respect of advance payments received by the Group for contract work in progress, while performance bonds are provided to some customers for a period of up to one year from final acceptance of the equipment.

Scott Technology Limited has a payment bond to the value of $75,000 in place with ANZ Bank New Zealand Limited in favour of the New Zealand Stock Exchange.

The Group has exposure to penalty clauses on its projects. These clauses relate to delivery criteria and are becoming increasingly common in international contractual agreements. There is a clearly defined sequence of events that needs to occur before penalty clauses are imposed.

F3. KEY MANAGEMENT PERSONNEL COMPENSATION

The compensation of the Directors and executives, being the key management personnel of the entity, is set out below:

	2018 $'000s	2017 $'000s
Short term benefits - employees	2,156	2,535
Short term benefits – executive Director	607	708
Short term benefits – non-executive Directors	208	193
Long term benefits – employees	494	604
Long term benefits – executive Director	268	284
	3,733	4,324

The composition of the executive team changed during the year following the acquisition of the Alvey and Transbotics businesses.

F4. SUBSEQUENT EVENTS

DIVIDEND

On 25 October 2018 the Board of Directors approved a final dividend of six cents per share with full imputation credits attached to be paid for the 2018 year (2017: six cents per share).

ADDITIONAL STOCK EXCHANGE INFORMATION

FOR THE YEAR ENDED 31 AUGUST 2018

SUBSTANTIAL SHAREHOLDERS

Names of Substantial Security Holder	Number of shares in which a relevant interest was held as at 17 September 2018
1. JBS Australia Pty Limited	38,476,592
2. Oakwood Securities Limited	5,500,000

The total number of issued voting securities of the company as at 17 September 2018 was 75,902,939 ordinary shares.

Distribution of Shares by Holding Size	# of Shareholders	% of Total	Number	% of Total
1 - 1,000	726	27.12	367,553	0.49
1,001 - 5,000	1,120	41.84	2,847,858	3.75
5,001 - 10,000	397	14.83	2,880,135	3.79
10,001 - 50,000	366	13.67	7,080,901	9.33
50,001 - 100,000	34	1.27	2,325,741	3.06
100,001 and over	34	1.27	60,400,751	79.58
Total and percentage	2,677	100.00	75,902,939	100.00

Twenty Largest Shareholders as at 17 September 2018	Shares	% of Total
1. JBS Australia Pty Limited	38,476,592	50.69
2. Oakwood Securities Limited	5,500,000	7.25
3. New Zealand Central Securities Depository Limited	5,020,992	6.62
4. Russell John Field & Anthony James Palmer (JI Urquart Family A/C)	2,000,000	2.63
5. JB Were (NZ) Nominees Limited	1,645,888	2.17
6. Forsyth Barr Custodians Limited (1-33 A/C)	1,062,795	1.40
7. Leveraged Equities Finance Limited	706,563	0.93
8. Jarden Custodians Limited	479,982	0.63
9. Jack William Allan & Helen Lynette Allan	450,000	0.59
10. FNZ Custodians Limited	403,790	0.53
11. Rosebery Holdings Limited	384,994	0.51
12. Forsyth Barr Custodians Limited	379,890	0.50
13. Kenneth William Wigley	373,709	0.49
14. Custodial Services Limited (4 A/C)	324,333	0.43
15. Michael Walter Daniel, Nigel Geoffrey Burton and Michael Murray Benjamin	290,000	0.38
16. Margaret Ann Ring & Melissa A Henderson	270,000	0.36
17. Opito Investments Pty Ltd	220,000	0.29
18. Investment Custodial Services Limited	218,691	0.29
19. Custodial Services Limited (3 A/C)	206,713	0.27
20. Harry McMillan Hearsay Salmon	200,000	0.26
	58,614,932	77.22

EMPLOYEE REMUNERATION

Remuneration and other benefits of $100,000 per annum or more, received or receivable by employees in their capacity as employees were:

Salary Range	Number of Employees	Salary Range	Number of Employees	Salary Range	Number of Employees
$100,000 - $110,000	27	$180,001 - $190,000	5	$270,001 - $280,000	1
$110,001 - $120,000	20	$190,001 - $200,000	2	$320,001 - $330,000	1
$120,001 - $130,000	15	$200,001 - $210,000	5	$340,001 - $350,000	1
$130,001 - $140,000	21	$210,001 - $220,000	1	$350,001 - $360,000	1
$140,001 - $150,000	13	$220,001 - $230,000	2	$360,001 - $370,000	1
$150,001 - $160,000	9	$230,001 - $240,000	5	$370,001 - $380,000	1
$160,001 - $170,000	6	$240,001 - $250,000	1	$490,001 - $500,000	1
$170,001 - $180,000	9	$250,001 - $260,000	1		

AUDITOR'S REPORT

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SCOTT TECHNOLOGY LIMITED

OPINION

We have audited the consolidated financial statements of Scott Technology Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 August 2018, 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 26 to 69, present fairly, in all material respects, the consolidated financial position of the Group as at 31 August 2018, 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 Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for the Group in the area of taxation advice, due diligence services and other assurance services. These services have not impaired our independence as auditor of the Company and Group. In addition to this, partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

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 $750,000.

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
RECOGNITION OF PROFIT ON LONG TERM PROJECTS **The Group's most significant revenue stream relates to long term projects for customers in various industries. Revenue and profit on long term projects are accounted for based on management's estimate of the percentage of completion of the individual contracts as detailed in note A1.** There is a significant level of judgement involved in the recognition of revenue and profit on long term projects driven by factors which arise throughout the life of the project requiring estimation, and contract conditions differing between projects. For these reasons, we have identified this area as a key audit matter.	Our procedures included, among others: • Assessment of controls – Assessing the group's processes and controls around preparation/calculation of the percentage of completion. • Hindsight consideration – For a sample of projects in place at the end of the prior year, we compared the current year actual results to prior year forecasts to assess the reliability of management estimates relating to the cost of completion. • Testing of contract revenue – For a sample of contracts, we performed the following procedures: - Assessed whether the key estimates made by management reflect the terms and conditions of the contract; - Evaluated cost to complete forecasts by challenging management's key assumptions and comparing revenue recognition calculations to project cost forecasts prepared by project managers; - Obtained evidence of scope variations and claims and verified that these have not been included in management's determination of revenue recognition until agreed with the customer; and - Tested contract costs incurred during the year to validate the costs and assess whether they have been applied to contracts appropriately.
GOODWILL IMPAIRMENT ASSESSMENT **As at 31 August 2018, there is $53.8 million (including goodwill in respect of the current year acquisitions which is addressed below) (2017: $30 million) of goodwill included on the balance sheet of the Group as detailed in note B5. The balance is held across three cash generating units.** NZ IAS 36: Impairment of Assets require the Group to complete an impairment test related to goodwill annually. The assessment of value in use is performed using a discounted cash flow calculation. This calculation is subjective, and requires the use of judgement, primarily in respect of: • Forecast cash flows, particularly in relation to future project wins and market conditions; and • Discount rates. We have assessed a key audit matter in relation to the significant judgements and estimates required in preparing the value in use model.	We considered whether the Group's methodology for assessing impairment is compliant with NZ IAS 36. We focused on testing and challenging the suitability of the models and reasonableness of the assumptions used by the Group in conducting their impairment reviews. Our procedures included, among others: • Assessment of controls – Assessing the group's processes and controls around the value in use calculation. • Cash generating units (CGU) – We assessed management's determination of cash generating units and our understanding of the Group's business and operating environment. • Past performance – We assessed the reasonableness of forecast figures by looking at historical performance against past forecasts. • Use of specialists – We used our internal valuation experts to assist in our evaluation of the reasonableness of the discount rates applied by the Group through consideration of the relevant risk factors for each CGU or impairment model, the cost of capital for the Group, and market data on comparable businesses. • Integrity check – We assessed the mathematical accuracy of the models. • Sensitivity analysis – We evaluated the sensitivity analysis performed by management to consider the extent to which a change in one or more of the key assumptions could give rise to impairment in the goodwill.

Key audit matter	How our audit addressed the key audit matter
ACQUISITION ACCOUNTING **As detailed in note E1, the Group acquired 100% of the shares in a variety of companies comprising Alvey Group ("Alvey") and the business of Transbotics Corporation ("Transbotics") for a total consideration of NZD $24.2 million between April 2018 and May 2018. Due to the timing of the acquisitions, the acquisition balance sheets were assessed on a provisional basis.** Accounting for these acquisitions involved judgement in order to: • Measure the provisional fair value of assets and liabilities recorded in the financial records of the entities acquired; • Identify and measure the provisional fair value of intangible assets not recorded in the financial records of the entities acquired; and • Allocate the purchase price between all the identifiable assets and liabilities, and goodwill. We included the Alvey and Transbotics acquisitions as a key audit matter given the level of estimation and judgement required in identifying and establishing the fair values. In particular, there is significant judgement relating to identifying the fair value of unrecognised intangible assets. The acquisition accounting resulted in the recognition of finite life intangible assets, comprising intellectual property provisionally valued at $4.8 million, and $23.8 million of goodwill. The intellectual property has been valued using the the relief from royalty method. The key assumptions applied in the model were: • cashflow projections; • discount rate; • royalty rate; and • terminal growth rate.	Our procedures included, amongst others: • Considering the completeness of the identified assets and liabilities acquired by comparison to the sale and purchase agreement, through discussions with the Group and internal experts, and based on our understanding of the acquired business; • Utilising industry knowledge to assess the Group's identification of intangible assets and consider what the residual goodwill represents; • Assessing the Group's determinations of provisional fair values for assets and liabilities acquired and the methods used to value the underlying assets; and • Challenging the rationale for allocation of goodwill to CGU's or groups of CGU's and evaluating the Group's assessment that there is no impairment of goodwill by comparing the forecast results included in their impairment models to the due diligence reports and group budgets. We used our internal valuation specialists to assess the appropriateness of the nature and provisional valuation of the intellectual property identified by the Group as part of the acquisitions. This assessment included: • evaluating the appropriateness of the valuation methodology and testing the mathematical integrity of the model; • evaluating the discount rate applied in the model through comparison to the cost of capital for the business and to external market data; and • comparing the Group's assumed royalty rate charge to market data for similar intangible assets.

AUDITOR'S REPORT (cont.)

OTHER INFORMATION

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

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

When we read 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.

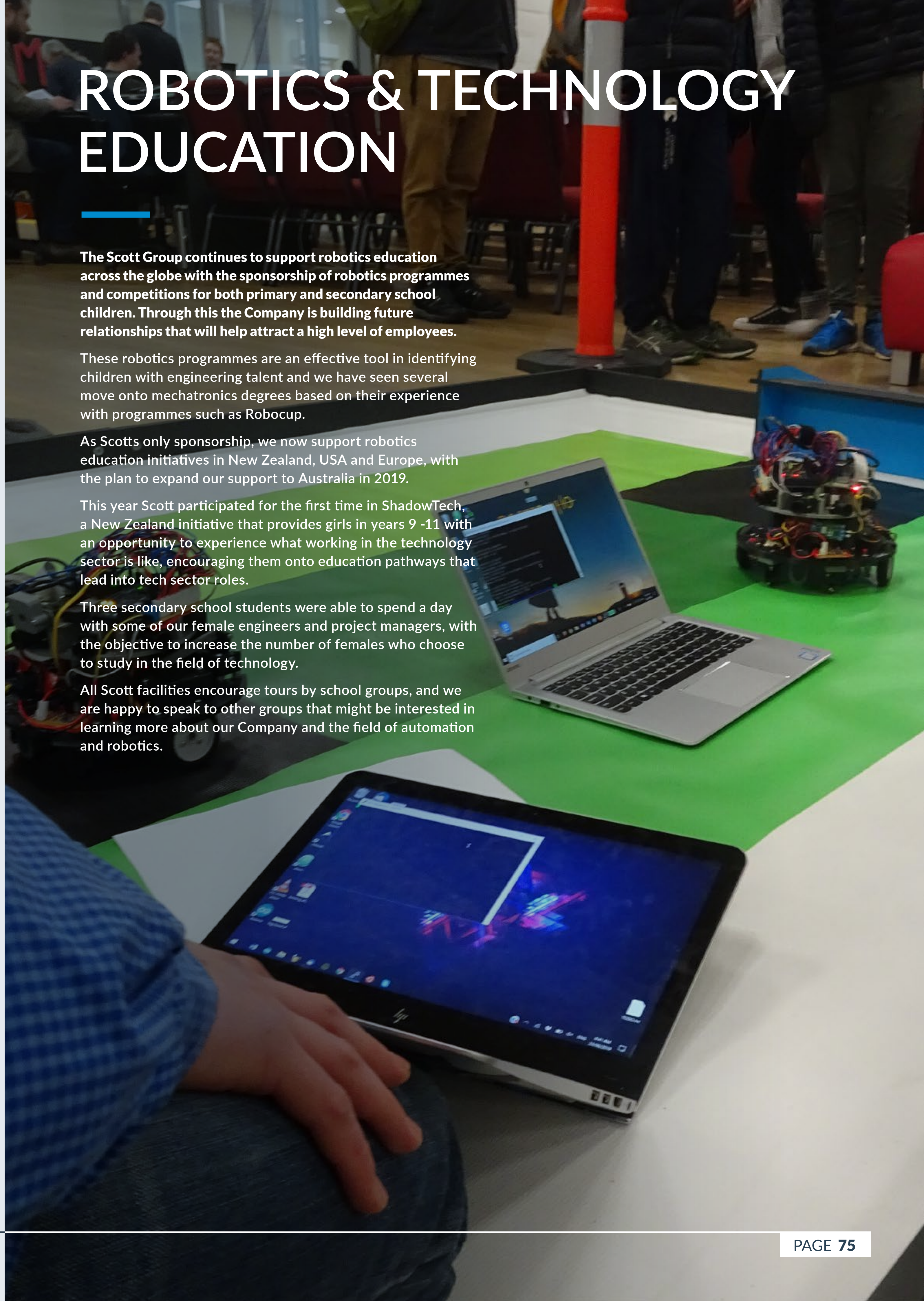
RESTRICTION ON USE

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.

Deloitte Limited

Michael Wilkes, Partner
for Deloitte Limited

Christchurch, New Zealand
25 October 2018



ROBOTICS & TECHNOLOGY EDUCATION

The Scott Group continues to support robotics education across the globe with the sponsorship of robotics programmes and competitions for both primary and secondary school children. Through this the Company is building future relationships that will help attract a high level of employees.

These robotics programmes are an effective tool in identifying children with engineering talent and we have seen several move onto mechatronics degrees based on their experience with programmes such as Robocup.

As Scotts only sponsorship, we now support robotics education initiatives in New Zealand, USA and Europe, with the plan to expand our support to Australia in 2019.

This year Scott participated for the first time in ShadowTech, a New Zealand initiative that provides girls in years 9 -11 with an opportunity to experience what working in the technology sector is like, encouraging them onto education pathways that lead into tech sector roles.

Three secondary school students were able to spend a day with some of our female engineers and project managers, with the objective to increase the number of females who choose to study in the field of technology.

All Scott facilities encourage tours by school groups, and we are happy to speak to other groups that might be interested in learning more about our Company and the field of automation and robotics.

DIRECTORY

PARENT COMPANY

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Stuart McLauchlan

Independent Directors
John Thorman

Directors Representing JBS Australia Pty Ltd (not Independent Directors)
Andre Nogueira
Brent Eastwood
Edison Alvares
John Berry (Alternate Director)

Managing Director/CEO
Chris Hopkins

Chief Financial Officer & Company Secretary
Greg Chiles

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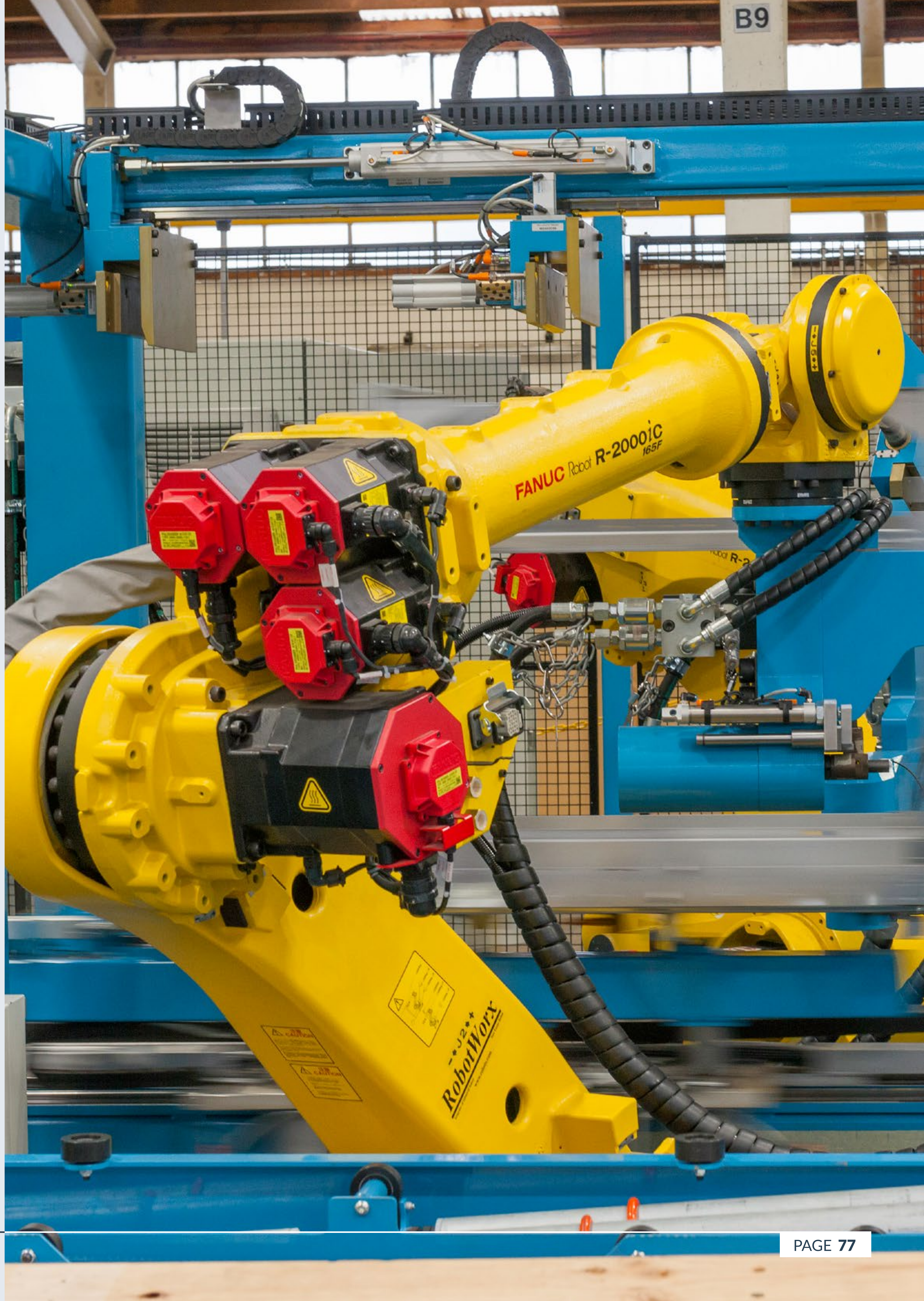


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