

## ANNUAL MEETING – MD ADDRESS

Thank you Mr Chairman. Before I second the motion I would like to expand further on the operational aspects of the business, elaborate on our performance in the past year and our objectives for the future.

The timeframe shows some of Scott's significant changes. Our diversification since 2011 has led to a burst of activity with several progressive acquisitions in the last few years.

When I introduce Scott Technology I describe our company, not as an exporter or a manufacturer, but as an international business that is based in New Zealand. It is difficult being an international business operating on a global platform based in New Zealand. The distance from market and the volatility of the economic environment adds to these challenges. To be effective on the international stage we have to be good at what we do and for a small company operating out of New Zealand this means we have to be focussed on niches and operate in fields where we are recognised as a world leader. For us, this means a primary focus on our key industry segments. These are:

- Global appliance industry
- Meat processing automation
- Industrial automation incubator
- Global mining industry
- High Temperature Superconductors – engineering solutions utilising superconducting materials and know-how.

In servicing these markets we are building our reputation and brand recognition. Our skills and expertise are being sought after by other industries and businesses and we continue to explore growth opportunities in alternative industries and markets, particularly where partnering strategically with end users and customers can create a very powerful force.

Before I talk about the future, it is appropriate to reflect on the year that was - a year that had its challenges, produced several highlights and opportunities and in the end delivered, what we believe, is a very strong performance and credible bottom line result.

## HIGHLIGHTS FOR THE YEAR

Highlights from the past year include:

- **Acquisitions**, which further enhance our growth potential. These included:
  - Reference Materials
  - HTS-110
  - QMT (China)
- **Growth** was achieved across the board. Revenues were up 15% and net profit before tax up 32% and this was achieved during challenging global economic times. Our industrial automation incubator activities undertook a range of projects, many with early stage research and development and a combination of our own intellectual property and partnering with third parties to develop their IP and our background IP.
- **Research and Development** – This is increasingly becoming the life blood of the company. In the 2010 / 2011 financial year we spent around \$8m on research and development activities. We work extremely hard to ensure that our spend is well targeted and that wherever possible we are paid for our research and development activities by our customers, the Government (New Zealand or Australia), leaving a much reduced residual as a direct expense on our shareholders. Our policy is to expense research activities in the year in which it has occurred and we are also very conservative when it comes to recognising assets from our R&D activities. We do not hold any development assets directly on our balance sheet. The only intangible assets we hold on our balance sheet is in relation to intellectual property associated with current leads which was acquired as part of the purchase of HTS-110 Ltd.
- **Capital Raising** – You would all be aware that we completed a very successful capital raising during the year. The \$9.5m raised was used to repay debt and to strengthen our balance sheet. This allows us to leverage our balance sheet to fund further growth. Many opportunities require significant working capital.
- **Strengthening, developing and growing the management team** to continue into 2012.

The company is focussed on ensuring a return to all stakeholders and at the same time being prudent with our resources as we invest in the future.

Ongoing success, sustained growth and bottom line performance enables us to provide a return to you, as shareholders, and also enables us to retain earnings, grow our equity and continue our prudent investments in the future. In terms of returns to shareholders, since the company was relisted in 1997, it is interesting to chart the growth and returns over the past 14 years.

In 2010 cumulative dividends of \$21m matched our total equity at the same point in time.

I would like to also highlight and to explain our activities over the past year, the graphs in front of you show our sales by product type; standard equipment and automated production systems. We are an international business and our focus is on automation and engineering. Our products are engineered products and we sell these in different industry segments.

I would like to explore and expand on what I see as a key strength of Scott – our research and development. This drives our innovation aspirations.

#### **WHAT DO WE GET FOR OUR R&D SPEND?**

- **New products for Scott.** In the last year these include the RM2000 Ring Mill for the Mining sector, the Auto Batch Mill, again the for Mining sector, X-Ray Grading, Lamb Boning Room Automation developments in middle and forequarter processing, and other such products.
- **New business opportunities**, including joint ventures and strategic partnerships in companies such as Robot Vision Lab, Scott Separation Technology (developing centrifuge separator for the honey, and other industries), and Solar Grade Silica, which has particular relevance to Dunedin. This project has received financial support and encouragement from the Dunedin City Council, as well as New Zealand Trade & Enterprise.
- **Technology development** as part of our solutions offered to customers and a developing **intellectual property** portfolio.

It is worthwhile to take a brief look at our growing intellectual property portfolio. Two Trademark applications, Patents for 17 inventions and multiple licencing arrangements.

The benefits are that we can protect our markets and our brand which are now delivering results and underpin our future.

I need to make mention of our Dairy Automation project. This has progressed during the year and we are now undertaking final proof of concept testing on-farm. These are expected to be complete prior to the New Year and if successful, will lead to full production trials in early 2012, followed by commercialisation in our 2012 / 2013 year.

## **LOOKING AHEAD TO 2012 AND BEYOND**

**Risks** – It is appropriate to point out that there are risks to our business. Some of these are:

- Commercialisation of our products is too slow.
- Exchange rate.
- Global economic environment and volatility.
- Technical and commercial.

With our feet firmly on the ground, and our team of talented people in place, we will continue to follow our vision of being the “Global Innovator in Automation”. We are focussed on growth, both organic and via acquisition and we are also focussed on the continued successful diversification of our industry segments. Our growth and our diversification will be driven by:

- Scott’s innovation
- Scott’s relationship with our customers (our reputation)
- Scott’s current workload, which happens to be very strong; and
- Scott’s strategic partnerships through joint ventures and preferred supply agreements.

There are many opportunities that we are pursuing that are on the table for evaluation. We will remain focussed on serving our existing customers and careful and selective in the opportunities that we pursue.

Finally, I would like to thank all the staff at Scott Technology, our associates and other stakeholders for their continued efforts, support and encouragement.

It is now my pleasure to formally second the motion moved by the Chairman, that the Annual Report, including the directors’ report, financial statements and auditors report of Scott Technology Limited for the year ended 31 August 2011, be adopted.

Thank you.