

**SCOTT TECHNOLOGY LIMITED  
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 2017 and the results of their operations and cash flows for the year ended 31 August 2017.

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.

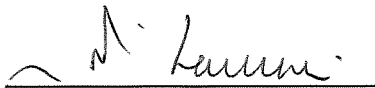
The Directors have responsibility for ensuring that proper accounting records have been kept which enable them to ensure that the financial statements comply with the Companies Act 1993 and the Financial Markets Conduct Act 2013.

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.

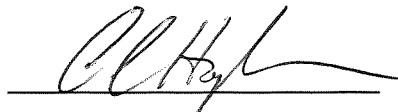
The Directors present the financial statements of Scott Technology Limited for the year ended 31 August 2017.

These financial statements are dated 12 October 2017 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

**SCOTT TECHNOLOGY LIMITED**  
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For the Year Ended 31 August 2017

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**SCOTT TECHNOLOGY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the Year Ended 31 August 2017

	<b>Note</b>	<b>2017 \$'000s</b>	<b>2016 \$'000s</b>
Revenue	A1	132,631	112,044
Other income	A1	2,599	2,471
Share of joint ventures' net surplus	E3	220	378
Raw materials, consumables used & other expenses		(77,340)	(66,579)
Employee benefits expense		(40,143)	(34,920)
Depreciation & amortisation	B4, B6	(2,987)	(1,744)
Finance costs		(67)	(685)
<b>NET SURPLUS BEFORE TAXATION</b>	A1	<u>14,913</u>	<u>10,965</u>
Taxation expense	A2	<u>(4,648)</u>	<u>(2,831)</u>
<b>NET SURPLUS FOR THE YEAR AFTER TAX</b>		<u>10,265</u>	<u>8,134</u>
<b>Other Comprehensive Income/(Deficit)</b>			
Items that may be reclassified to profit or loss:			
Translation of foreign operations		<u>(607)</u>	<u>(201)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX</b>		<u><u>9,658</u></u>	<u><u>7,933</u></u>
Net surplus for the year after tax is attributable to:			
Members of the parent entity (used in the calculation of earnings per share)		9,890	7,485
Non controlling interests		<u>375</u>	<u>649</u>
		<u>10,265</u>	<u>8,134</u>
Total comprehensive income is attributable to:			
Members of the parent entity		9,283	7,284
Non controlling interests		<u>375</u>	<u>649</u>
		<u>9,658</u>	<u>7,933</u>
		<u><u>9,658</u></u>	<u><u>7,933</u></u>
		<b>2017 Cents Per Share</b>	<b>2016 Cents Per Share</b>
<b>Earnings per share (weighted average shares on issue):</b>			
Basic	C2	13.2	13.3
Diluted	C2	13.2	13.3
<b>Net tangible assets per ordinary share (at year end):</b>			
Basic	C2	73.5	82.2
Diluted	C2	73.5	82.2

**SCOTT TECHNOLOGY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
For the Year Ended 31 August 2017

	Note	Fully Paid Ordinary Shares \$'000s	Retained Earnings \$'000s	Foreign Currency Translation Reserve \$'000s	Non Controlling Interests \$'000s	Total \$'000s
<b>Balance at 31 August 2015</b>		30,943	21,114	(1,459)	20	50,618
Net surplus for the year after tax		-	7,485	-	649	8,134
Other comprehensive income for the year net of tax		-	-	(201)	-	(201)
Dividends paid (9.50 cents per share)		-	(4,320)	-	-	(4,320)
Issue of ordinary shares under JBS Australia Pty Ltd Scheme of Arrangement	C1	40,597	-	-	-	40,597
Share issue costs	C1	(228)	-	-	-	(228)
<b>Balance at 31 August 2016</b>		<u>71,312</u>	<u>24,279</u>	<u>(1,660)</u>	<u>669</u>	<u>94,600</u>
Net surplus for the year after tax		-	9,890	-	375	10,265
Other comprehensive income 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)
<b>Balance at 31 August 2017</b>		<u><u>71,312</u></u>	<u><u>28,064</u></u>	<u><u>(2,267)</u></u>	<u><u>47</u></u>	<u><u>97,156</u></u>

**SCOTT TECHNOLOGY LIMITED**  
**BALANCE SHEET**  
**As at 31 August 2017**

	Note	2017 \$'000s	2016 \$'000s
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		26,670	34,244
Trade debtors	B1	17,833	15,833
Other financial assets	C6	144	1,377
Sundry debtors		947	1,125
Inventories	B2	16,272	12,343
Contract work in progress	B3	4,108	-
Receivable from joint ventures	E4	1,909	1,393
Plant and equipment held for sale		345	-
		<hr/>	<hr/>
		68,228	66,315
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	B4	14,249	12,831
Capital work in progress		319	-
Investment in joint ventures	E3	1,118	923
Other financial assets	C6	-	99
Goodwill	B5	29,987	29,911
Deferred tax asset	A2	969	1,603
Intangible assets	B6	11,311	1,698
Receivable from joint ventures	E4	-	431
		<hr/>	<hr/>
		57,953	47,496
<b>TOTAL ASSETS</b>			
		<hr/> <hr/>	<hr/> <hr/>
		126,181	113,811
<b>CURRENT LIABILITIES</b>			
Trade creditors and accruals	C4	16,590	8,364
Finance lease liabilities	C5	30	32
Other financial liabilities	C6	1	521
Employee entitlements	C7	4,272	4,006
Provision for warranty	C8	1,300	1,100
Taxation payable		3,691	1,912
Payable to joint ventures	E4	547	346
Contract work in progress	B3	-	1,137
		<hr/>	<hr/>
		26,431	17,418
<b>NON CURRENT LIABILITIES</b>			
Other financial liabilities	C6	-	99
Employee entitlements	C7, C9	2,568	1,639
Finance lease liabilities	C5	26	55
		<hr/>	<hr/>
		2,594	1,793
<b>EQUITY</b>			
Share capital	C1	71,312	71,312
Retained earnings		28,064	24,279
Foreign currency translation reserve		(2,267)	(1,660)
		<hr/>	<hr/>
Equity attributable to equity holders of the parent		97,109	93,931
Non controlling interests		47	669
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		97,156	94,600
<b>TOTAL LIABILITIES &amp; EQUITY</b>			
		<hr/> <hr/>	<hr/> <hr/>
		126,181	113,811

**SCOTT TECHNOLOGY LIMITED**  
**STATEMENT OF CASHFLOWS**  
For the Year Ended 31 August 2017

	Note	2017 \$'000s	2016 \$'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from / (applied to):</b>			
Receipts from operations		126,908	118,880
Interest received		664	299
Net GST paid		(65)	(372)
Payments to suppliers and employees		(111,365)	(100,463)
Interest paid		(67)	(773)
Taxation paid		(2,668)	(1,463)
<b>Net cash inflow from operating activities</b>	F1	<u>13,407</u>	<u>16,108</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was provided from / (applied to):</b>			
Purchase of non controlling interest in subsidiary		(550)	-
Purchase of property, plant, equipment and intangible assets		(12,976)	(2,984)
Sale of property, plant and equipment		337	481
Net advances from/(to) joint ventures		(293)	1,593
Purchase of business		(375)	(880)
Repayment of advance to Employee Share Purchase Scheme		2	2
<b>Net cash outflow from investing activities</b>		<u>(13,855)</u>	<u>(1,788)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from / (applied to):</b>			
Repayment of borrowings		(31)	(17,410)
Dividends paid		(7,095)	(4,320)
Issue of share capital, net of issue costs		-	40,369
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(7,126)</u>	<u>18,639</u>
Net increase/(decrease) in cash held		(7,574)	32,959
Add cash and cash equivalents at start of period		<u>34,244</u>	<u>1,285</u>
<b>Balance at end of period</b>		<u><u>26,670</u></u>	<u><u>34,244</u></u>
<b>Comprised of:</b>			
Cash and bank balances		<u><u>26,670</u></u>	<u><u>34,244</u></u>

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 August 2017**

**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 Generally Accepted Accounting Practice (“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 12 October 2017.

**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 2017 and the comparative information presented in these financial statements for the year ended 31 August 2016.

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.

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)

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 August 2017**

**SUMMARY OF ACCOUNTING POLICIES (Cont.)**

**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 and 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 the financial year ending 31 August 2019. 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 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.
- 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 reliable estimate of the impact of the new standard on the Group's financial statements. The Group expects to report more detailed information, including estimated quantitative financial effects in its 2018 financial statements and intends to apply the standard from the period ending 31 August 2019.



**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 August 2017**

**SUMMARY OF ACCOUNTING POLICIES (Cont.)**

**Standards & Interpretations in Issue not yet Adopted (Cont.)**

- 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 reliable estimate of the impact of the new standard on the Group's financial statements. The Group expects to report more detailed information, including estimated quantitative financial effects in its 2018 financial statements and 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).

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**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 sales 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 sales 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.

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
<b>(a) Revenue</b>		
Revenue from long term projects	81,282	67,704
Sale of goods	40,200	34,545
Other revenue (including service and short term projects)	11,149	9,795
	<hr/>	<hr/>
	132,631	112,044
<b>(b) Other income</b>		
Fair value gain on purchase of business (refer Note E1)	936	-
Government grants related to research and development	926	2,172
Interest received	664	299
Gain on sale of property, plant and equipment	73	-
	<hr/>	<hr/>
	2,599	2,471

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**A1. INCOME AND OPERATING EXPENSES (Cont.)**

<b>(c) Operating expenses</b>	<b>2017 \$'000s</b>	<b>2016 \$'000s</b>
<i>The surplus is stated after charging:</i>		
Auditor's remuneration - audit of financial statements	151	121
- other assurance services	9	11
- taxation services	19	24
The auditor of the Group is Deloitte Limited.		
Directors' fees	193	205
Superannuation scheme contributions	2,275	1,345
Fair value losses on firm commitments	1	1,051
Leasing and rental costs	1,391	1,222
Foreign exchange losses	-	27
Unrealised fair value losses on foreign exchange derivatives	-	155
Loss on disposal of property, plant and equipment	-	215
Impairment of net assets (QMT Machinery Technology (Qingdao) Co Ltd)	-	449
<i>and after crediting:</i>		
Fair value gains on derivatives held as fair value hedges	1	1,051
Foreign exchange gains	269	-
Unrealised fair value gains on foreign exchange derivatives	143	-

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**A2. INCOME TAXES**

**(a) 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:

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Net surplus before tax	14,913	10,965
Income tax expense calculated at 28% (2016: 28%)	4,175	3,070
Non-deductible expenses	439	244
Under/(over) provision of income tax in previous year	34	(483)
Taxation expense	<u>4,648</u>	<u>2,831</u>
Represented by:		
Current tax	4,447	2,213
Deferred tax	201	618
	<u>4,648</u>	<u>2,831</u>

**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 2017 income tax year.

**(b) 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.*

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**A2. INCOME TAXES (Cont.)**

<b>2017</b>	<b>Opening Balance \$'000s</b>	<b>Charged to Income \$'000s</b>	<b>Acquisition of Subsidiary/ Business \$'000s</b>	<b>Closing Balance \$'000s</b>
<b>Gross deferred tax assets:</b>				
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
	<u>2,748</u>	<u>478</u>	<u>5</u>	<u>3,231</u>
<b>Gross deferred tax liabilities:</b>				
Property, plant and equipment	1,145	679	349	2,173
Intangible assets	-	-	89	89
	<u>1,145</u>	<u>679</u>	<u>438</u>	<u>2,262</u>
	<u>1,603</u>	<u>(201)</u>	<u>(433)</u>	<u>969</u>
<b>2016</b>				
<b>Gross deferred tax assets:</b>				
Trade debtors		98	31	129
Inventories		165	171	336
Employee entitlements		804	269	1,073
Provisions		364	6	370
Tax losses		2,283	(1,378)	905
		<u>3,714</u>	<u>(901)</u>	<u>2,813</u>
<b>Gross deferred tax liabilities:</b>				
Property, plant and equipment		1,186	(41)	1,145
Prepayments		307	(307)	-
Accruals		-	65	65
		<u>1,493</u>	<u>(283)</u>	<u>1,210</u>
		<u>2,221</u>	<u>(618)</u>	<u>1,603</u>

**(c) Imputation credit account balances**

	<b>2017 \$'000s</b>	<b>2016 \$'000s</b>
Imputation credits available to shareholders	<u>2,567</u>	<u>2,385</u>

**SCOTT TECHNOLOGY LIMITED**  
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**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.*

*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.

<b>2017</b>	<b>Australasia Manufacturing \$'000s</b>	<b>Americas Manufacturing \$'000s</b>	<b>Asia &amp; Europe Manufacturing \$'000s</b>	<b>Unallocated \$'000s</b>	<b>Total \$'000s</b>
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

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**A3. SEGMENT INFORMATION (Cont.)**

2016	Australasia Manufacturing \$'000s	Americas Manufacturing \$'000s	Asia & Europe Manufacturing \$'000s	Unallocated \$'000s	Total \$'000s
Revenue	88,151	15,355	8,538	-	112,044
Segment profit	18,362	881	(1,092)	-	18,151
Impairment of net assets	-	-	(449)	-	(449)
Depreciation and amortisation	(1,150)	(150)	(141)	(303)	(1,744)
Share of net surplus of joint ventures	250	120	8	-	378
Interest revenue	5	-	2	292	299
Central administration costs	-	-	-	(4,985)	(4,985)
Finance costs	(346)	(241)	(2)	(96)	(685)
Net surplus before taxation	17,121	610	(1,674)	(5,092)	10,965
Taxation expense	(4,599)	(110)	469	1,409	(2,831)
Net surplus after taxation	12,522	500	(1,205)	(3,683)	8,134

Revenue reported above represents revenue generated from external customers. Inter-segment sales, which are eliminated on consolidation, were \$7.9 million for the year ended 31 August 2017 (2016: \$1.4 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, meat processing, mining, high temperature superconductor products and other industrial automation, including robotics. The Group's revenue from external customers by industry is detailed below:

	2017 \$'000s	2016 \$'000s
Appliances	26,308	20,181
Meat processing	39,581	38,875
Mining	26,461	22,357
High temperature superconductor products	1,747	3,335
Other industrial automation, including robotics	38,534	27,296
	<u>132,631</u>	<u>112,044</u>

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**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:

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
New Zealand (country of domicile)	8,267	17,548
North America, including Mexico	35,614	31,979
Australia and Pacific Islands	49,632	38,833
South America	3,215	5,043
Asia	15,987	9,155
Russia and former states	4,955	2,468
Africa and Middle East	2,327	1,478
Other Europe	12,634	5,540
	<u>132,631</u>	<u>112,044</u>

The Group holds \$12.1 million of non-current assets in geographical areas outside of New Zealand, the country of domicile (2016: \$2.9 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 10.6% of total Group sales (2016: Australasia Manufacturing segment and the Meat Industry 10.1%).



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**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.

	<b>2017</b> <b>\$'000s</b>	<b>2016</b> <b>\$'000s</b>
Trade debtors	18,574	16,285
Allowance for doubtful debts (i)	(741)	(452)
	<u>17,833</u>	<u>15,833</u>

**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.

**(i) Allowance for doubtful debts**

Balance at beginning of financial year	452	350
Impairment loss recognised on trade debtors	289	102
	<u>741</u>	<u>452</u>

**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 (2016: all aged beyond 90 days).

**(ii) Past due but not impaired**

Included in the Group's trade debtors are debtors with a carrying amount of \$3,101,000 (2016: \$4,762,000) 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.

	<b>2017</b> <b>\$'000s</b>	<b>2016</b> <b>\$'000s</b>
Ageing of past due but not impaired:		
30 – 60 days	981	2,588
60 – 90 days	1,089	1,034
90 days +	831	1,140
	<u>2,901</u>	<u>4,762</u>

**SCOTT TECHNOLOGY LIMITED**  
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**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.*

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Raw materials	3,158	2,687
Work in progress	416	1,288
Finished goods	12,698	8,368
	<u>16,272</u>	<u>12,343</u>

**Write downs**

The cost of inventories recognised as an expense during the year includes \$320,000 (2016: \$ Nil) 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*

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Costs incurred and estimated earnings on uncompleted contracts	110,372	116,557
Progress claims received or receivable	(106,264)	(117,694)
	<u>4,108</u>	<u>(1,137)</u>
Represented by:		
Sales recognised to be recovered by invoices	22,761	16,178
Contracts invoiced in advance of sales recognised	(18,653)	(17,315)
	<u>4,108</u>	<u>(1,137)</u>

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**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
<b>Gross carrying amount</b>				
As at 31 August 2015	2,133	6,389	20,025	28,547
Acquisitions through business combinations	-	-	802	802
Additions	296	591	2,097	2,984
Disposals	-	-	(3,003)	(3,003)
<b>As at 31 August 2016</b>	<u>2,429</u>	<u>6,980</u>	<u>19,921</u>	<u>29,330</u>
Acquisitions through business combinations	-	-	1,631	1,631
Additions	-	85	1,659	1,704
Disposals	-	-	(1,483)	(1,483)
<b>As at 31 August 2017</b>	<u>2,429</u>	<u>7,065</u>	<u>21,728</u>	<u>31,222</u>
<b>Accumulated depreciation &amp; impairment</b>				
As at 31 August 2015	-	1,557	15,522	17,079
Disposals	-	-	(2,307)	(2,307)
Depreciation expense	-	199	1,528	1,727
<b>As at 31 August 2016</b>	<u>-</u>	<u>1,756</u>	<u>14,743</u>	<u>16,499</u>
Disposals	-	-	(1,220)	(1,220)
Depreciation expense	-	216	1,478	1,694
<b>As at 31 August 2017</b>	<u>-</u>	<u>1,972</u>	<u>15,001</u>	<u>16,973</u>
<b>Net book value</b>				
As at 31 August 2016	<u>2,429</u>	<u>5,224</u>	<u>5,178</u>	<u>12,831</u>
As at 31 August 2017	<u>2,429</u>	<u>5,093</u>	<u>6,727</u>	<u>14,249</u>

Aggregate depreciation allocated, whether recognised as an expense or as part of the carrying amount of other assets during the year:

	2017 \$'000s	2016 \$'000s
Freehold buildings	216	199
Plant, equipment and vehicles	1,478	1,528
	<u>1,694</u>	<u>1,727</u>

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**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.*

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
<b>Gross carrying amount</b>		
Balance at beginning of financial year	29,911	29,758
Additional amounts recognised from business combinations occurring during the period (refer Note E1)	76	153
Balance at end of financial year	<u>29,987</u>	<u>29,911</u>

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.

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.

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

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Australasia manufacturing	24,051	23,975
Americas manufacturing	5,422	5,422
Asia and Europe Manufacturing	514	514
	<u>29,987</u>	<u>29,911</u>

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**B5. GOODWILL (Cont.)**

*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 Scott Technology's approximate weighted average cost of capital as the discount rate. The discount rate used is 11%.

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 Scott Technology's approximate weighted average cost of capital as the discount rate. The discount rate used is 11%.

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 Scott Technology's approximate weighted average cost of capital as the discount rate. The discount rate used is 11%.

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 2% reflecting historic inflation rates. 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.

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**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.*

	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
<b>Gross carrying amount</b>						
As at 31 August 2015 & August 2016	-	1,492	69	271	-	1,832
Acquisitions through business combinations	-	-	-	-	338	338
Additions	10,568	-	-	-	-	10,568
<b>As at 31 August 2017</b>	<b>10,568</b>	<b>1,492</b>	<b>69</b>	<b>271</b>	<b>338</b>	<b>12,738</b>
<b>Accumulated amortisation and impairment</b>						
As at 31 August 2015	-	-	19	98	-	117
Amortisation expense	-	-	1	16	-	17
<b>As at 31 August 2016</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>114</b>	<b>-</b>	<b>134</b>
Amortisation expense	1,261	-	1	25	6	1,293
<b>As at 31 August 2017</b>	<b>1,261</b>	<b>-</b>	<b>21</b>	<b>139</b>	<b>6</b>	<b>1,427</b>
<b>Net book value</b>						
As at 31 August 2016	-	1,492	49	157	-	1,698
As at 31 August 2017	9,307	1,492	48	132	332	11,311

**Assets**

Intangible assets comprise:

- Bladestop bandsaw safety technology purchased in October 2016 which is being amortised over a 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. Intangible assets associated with the RobotWorx non-compete arrangement are being amortised 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 a 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 over a 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.

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**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**

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Commitments for future capital expenditure for purchase of plant and equipment	139	9
	<u>          </u>	<u>          </u>

In June 2017 Scott Technology Limited announced plans to extend the building and associated facilities at 630 Kaikorai Valley Road, with the expectation that it would nearly double the available floor space. As at 31 August 2017 preliminary designs and exploratory groundwork was still to be completed and no construction contract had been quoted or signed.

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**SECTION C – CAPITAL & FUNDING**

**C1. SHARE CAPITAL**

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

	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>Number</b>	<b>Number</b>	<b>\$'000s</b>	<b>\$'000s</b>
Fully paid ordinary shares at beginning of financial year	74,680,754	45,473,890	71,312	30,943
Issue of shares under JBS Australia Pty Ltd Scheme of Arrangement	-	29,206,864	-	40,597
Less share issue costs	-	-	-	(228)
Balance at end of financial year	<u>74,680,754</u>	<u>74,680,754</u>	<u>71,312</u>	<u>71,312</u>

**2016 Scheme of Arrangement**

Under the 2016 JBS Australia Pty Ltd Scheme of Arrangement:

- 27,231,246 new shares were issued to JBS Australia Pty Ltd for \$1.39 per share;
- 1,975,618 new shares were issued to existing shareholders who participated in the rights issue at \$1.39 per share; and
- 10,183,812 existing shares were transferred from existing shareholders to JBS Australia Pty Ltd at \$1.39 per share.

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**

	<b>2017</b>	<b>2016</b>
	<b>Cents Per Share</b>	<b>Cents Per Share</b>
<b>Earnings per share from continuing operations</b>		
Basic	13.2	13.3
Diluted	13.2	13.3
<b>Net tangible assets per ordinary share</b>		
Basic	73.5	82.2
Diluted	73.5	82.2



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**C2. EARNINGS & NET TANGIBLE ASSETS PER SHARE (Cont.)**

	<b>2017</b> <b>\$'000s</b>	<b>2016</b> <b>\$'000s</b>
Net surplus for the year used in the calculation of basic and diluted earnings per share from continuing operations	9,890	7,485
Net tangible assets (excluding goodwill, intangible assets and deferred tax)	54,889	61,388
	<b>2017</b> <b>#'000s</b>	<b>2016</b> <b>#'000s</b>
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share from continuing operations	74,681	56,327
Ordinary shares at year end used in the calculation of net tangible assets per ordinary share (Note C1)	74,681	74,681

**C3. BANK FACILITIES**

*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.*

**Borrowings**

The Group has a working capital facility from ANZ Bank New Zealand Limited with a total limit of \$500,000 (2016: \$500,000). As at 31 August 2017 the amount used was \$Nil (2016: \$Nil).

The Group has a financial guarantee facility and a trade performance bond facility from ANZ Bank New Zealand Limited with a total limit of \$10,700,000 (2016: \$10,700,000) and from Bank of China with a total limit of \$152,000 (2016: \$Nil). As at 31 August 2017 the amount used was \$7,786,000 (2016: \$6,146,000). Refer note F2, Contingent Liabilities.

The Group has secured credit card facilities from:

- For New Zealand - ANZ Bank New Zealand Limited with a total limit of \$750,000 (2016: \$750,000). As at 31 August 2017 the total amount used was \$61,000 (2016: \$76,000).
- For Australia – Australia and New Zealand Banking Group Limited with a total limit of \$220,000 (2016: \$Nil). As at 31 August 2017 the total amount used was \$178,000 (2016: \$Nil).
- For USA – PNC Bank with a total limit of \$139,000 (2016: \$Nil). As at 31 August 2017 the total amount used was \$59,000 (2016: \$Nil).

The total amount 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.

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**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.*

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Trade creditors	10,866	4,466
Accruals	5,724	3,898
	<u>16,590</u>	<u>8,364</u>

**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.

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
No longer than 1 year	1,941	1,151
Longer than 1 year and not longer than 2 years	1,685	1,151
Longer than two years and not longer than 5 years	2,624	1,572
Longer than 5 years	399	26
	<u>6,649</u>	<u>3,900</u>

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**C5. LEASES (Cont)**

**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.*

**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.*

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**C6. DERIVATIVES (Cont)**

**Cash Flow Hedge (cont)**

*Policy* 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).*

*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.*

<b>Assets</b>	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
<b>At fair value:</b>		
Foreign currency forward contracts held as effective fair value hedges	1	620
Foreign exchange collar option derivatives	-	479
Foreign exchange derivatives	143	377
	<u>144</u>	<u>1,476</u>
<b>Represented by:</b>		
Current financial assets	144	1,377
Non current financial assets	-	99
	<u>144</u>	<u>1,476</u>
<b>Liabilities</b>		
<b>At fair value:</b>		
Fair value hedge of open firm commitments	1	620
<b>Represented by:</b>		
Current financial liabilities	1	521
Non current financial liabilities	-	99
	<u>1</u>	<u>620</u>

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**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 12 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 12 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.*

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Balance at beginning of financial year	1,100	750
Additional provisions recognised	550	820
Reductions arising from payments	(350)	(470)
	<hr/>	<hr/>
Balance at end of financial year	<u>1,300</u>	<u>1,100</u>

**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 \$1,420,000 included in employee entitlements in the balance sheet. The impact of the movement in the liability on profit for the year was \$790,000 and is included in employee benefits expense. No shares or share options in Scott Technology Limited are issued under the plan.

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**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 & Non 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.

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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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**D1. FINANCIAL INSTRUMENTS (Cont.)**

**Impairment of Financial & Non Financial Assets (Cont.)**

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.

**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 2016.

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

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.



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**D1. FINANCIAL INSTRUMENTS (Cont.)**

**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	
	2017 \$'000s	2016 \$'000s	2017 \$'000s	2016 \$'000s
United States Dollar	13,169	9,618	2,810	1,143
Euros	2,542	1,255	1,974	710
Australian Dollar	8,460	7,492	4,956	1,239
Japanese Yen	7	8	-	-
Great Britain Pound	1	115	36	16
Chinese RMB	797	337	931	373
Canadian Dollar	-	40	-	-
	<u>24,976</u>	<u>18,865</u>	<u>10,707</u>	<u>3,481</u>

**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	
	2017	2016	2017 FC'000s	2016 FC'000s	2017 \$'000s	2016 \$'000s	2017 \$'000s	2016 \$'000s
<b>Foreign currency forward contracts held as effective fair value hedges</b>								
<i>Sell United States Dollars</i>								
Less than 3 months	0.7204	0.6498	79	1,215	110	1,870	(1)	188
3 to 6 months	0.6999	0.6822	1,275	754	1,822	1,105	35	58
6 to 12 months	0.6921	0.6735	823	136	1,189	202	34	12
1 to 2 years	-	0.6311	-	597	-	946	-	99
			<u>2,177</u>	<u>2,702</u>	<u>3,121</u>	<u>4,123</u>	<u>68</u>	<u>357</u>
<i>Sell Euros</i>								
0 to 3 months	0.6511	0.5835	118	69	181	118	(16)	11
3 to 6 months	0.6461	-	59	-	91	-	(8)	-
			<u>177</u>	<u>69</u>	<u>272</u>	<u>118</u>	<u>(24)</u>	<u>11</u>
<i>Sell Australian Dollars</i>								
Less than 3 months	0.9059	0.8828	1,400	240	1,545	272	1	22
3 to 6 months	0.9048	0.9055	1,470	2,895	1,625	3,197	2	186
6 to 12 months	0.9330	0.9053	1,444	700	1,548	773	(46)	44
			<u>4,314</u>	<u>3,835</u>	<u>4,718</u>	<u>4,242</u>	<u>(43)</u>	<u>252</u>
					<u>8,111</u>	<u>8,483</u>	<u>1</u>	<u>620</u>



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**D1. FINANCIAL INSTRUMENTS (Cont.)**

	Average Exchange Rate		Foreign Currency		NZ\$ Contract Value		Fair Value	
	2017	2016	2017 FC'000s	2016 FC'000s	2017 \$'000s	2016 \$'000s	2017 \$'000s	2016 \$'000s
<b>Foreign exchange derivatives</b>								
<i>Sell United States Dollars</i>								
Less than 3 months	0.6972	0.6659	2,459	3,166	3,527	4,754	86	367
3 to 6 months	0.6843	-	573	-	837	-	35	-
6 to 12 months	0.7012	-	1,820	-	2,595	-	39	-
			<u>4,852</u>	<u>3,166</u>	<u>6,959</u>	<u>4,754</u>	<u>160</u>	<u>367</u>
<i>Sell Australian Dollars</i>								
Less than 3 months	0.9346	0.9160	525	192	562	210	(17)	10
					<u>7,521</u>	<u>4,964</u>	<u>143</u>	<u>377</u>
<b>Foreign exchange collar option derivatives</b>								
<i>Group has the right (but not the obligation) above the exchange rate to:</i>								
<i>Sell United States Dollars</i>								
Less than 3 months	-	0.6700	-	4,000	-	5,970	-	439
<i>Sell Canadian Dollars</i>								
Less than 3 months	-	0.8900	-	600	-	674	-	40
<i>Group has the obligation below the exchange rate to:</i>								
<i>Sell United States Dollars</i>								
Less than 3 months	-	0.5918	-	8,000	-	13,518	-	-
<i>Sell Canadian Dollars</i>								
Less than 3 months	-	0.8545	-	1,200	-	1,404	-	-
					<u>-</u>	<u>21,566</u>	<u>-</u>	<u>479</u>

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

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**D1. FINANCIAL INSTRUMENTS (Cont.)**

**Foreign Currency Sensitivity Analysis**

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

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.

	US Dollar Impact		Euro Impact		Australian Dollar Impact		Chinese RMB Impact	
	2017 \$'000s	2016 \$'000s	2017 \$'000s	2016 \$'000s	2017 \$'000s	2016 \$'000s	2017 \$'000s	2016 \$'000s
Impact on profit or loss and equity:								
10% increase in New Zealand Dollar	(340)	(225)	(57)	(55)	(294)	(604)	(13)	(4)
10% decrease in New Zealand Dollar	340	225	57	55	294	604	13	4

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 \$3,827,000 (2016: \$7,478,000).

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.

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**D1. FINANCIAL INSTRUMENTS (Cont.)**

**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.

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.

	<b>Weighted Average Effective Interest Rate %</b>	<b>On Demand \$'000s</b>	<b>Less than 1 Year \$'000s</b>	<b>1-2 Years \$'000s</b>	<b>2-3 Years \$'000s</b>	<b>3-5 Years \$'000s</b>	<b>5+ Years \$'000s</b>	<b>Total \$'000s</b>
<b>2017</b>								
<b>Financial Liabilities</b>								
Finance lease liabilities	3.47%	-	31	12	8	7	-	58
Payable to joint ventures	-	-	547	-	-	-	-	547
Trade creditors & accruals	-	16,590	-	-	-	-	-	16,590
		<u>16,590</u>	<u>578</u>	<u>12</u>	<u>8</u>	<u>7</u>	<u>-</u>	<u>17,195</u>
<b>2016</b>								
<b>Financial Liabilities</b>								
Finance lease liabilities	3.88%	-	35	30	11	15	-	91
Payable to joint ventures	-	-	346	-	-	-	-	346
Trade creditors & accruals	-	8,364	-	-	-	-	-	8,364
		<u>8,364</u>	<u>381</u>	<u>30</u>	<u>11</u>	<u>15</u>	<u>-</u>	<u>8,801</u>

The Group has access to financing facilities, of which the total unused amount is \$4.4 million at the balance sheet date, (2016: \$5.7 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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**D1. FINANCIAL INSTRUMENTS (Cont.)**

**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.

	Level 1 \$'000s	Level 2 \$'000s	Level 3 \$'000s	Total \$'000s
<b>2017</b>				
<b>Financial assets at fair value through profit and loss</b>				
Foreign currency forward contracts held as effective fair value hedges	-	1	-	1
Foreign exchange derivatives	-	143	-	143
<b>Financial liabilities at fair value through profit and loss</b>				
Fair value hedge of open firm commitments	-	(1)	-	(1)
	-	143	-	143
<b>2016</b>				
<b>Financial assets at fair value through profit and loss</b>				
Foreign currency forward contracts held as effective fair value hedges	-	620	-	620
Foreign exchange derivatives	-	377	-	377
Foreign exchange collar option derivatives	-	479	-	479
<b>Financial liabilities at fair value through profit and loss</b>				
Fair value hedge of open firm commitments	-	(620)	-	(620)
	-	856	-	856

**Fair Value**

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

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**SECTION E – GROUP STRUCTURE & SUBSIDIARIES**

**E1. ACQUISITION OF BUSINESS**

**Business Acquired**

Name	Principal Activity	Date of Acquisition	Proportion of Shares / Assets Acquired	Cost of Acquisition \$'000s
DC Ross	Precision metal stamping	30 June 2017	100%	375
Scott Separation Technology Limited (Acquired other joint venture partners' shares)	Centrifuge technology	22 May 2017	50%	433

**Analysis of Assets & Liabilities Acquired**

Assets & Liabilities	D C Ross			Scott Separation Technology			Total Fair Value on Acquisition \$'000s
	Book Value \$'000s	Fair Value Adjustment \$'000s	Fair Value on Acquisition \$'000s	Book Value \$'000s	Fair Value Adjustment \$'000s	Fair Value On Acquisition \$'000s	
Inventories & other current assets	-	37	37	95	-	95	132
Plant & equipment	375	1,248	1,623	19	(11)	8	1,631
Intangible assets	-	-	-	338	-	338	338
Deferred tax	-	(349)	(349)	5	(89)	(84)	(433)
Total assets & liabilities	375	936	1,311	457	(100)	357	1,668
(Fair value gain)/ goodwill on acquisition			(936)			76	(860)
Cost of acquisition			<u>375</u>			<u>433</u>	<u>808</u>

**Cost of Acquisition**

The cost of acquisition of the D C Ross business was fully paid in cash. The cash outflow on acquisition was \$375,000.

No cash was paid for the acquisition of Scott Separation Technology Limited. The cost of acquisition was represented by Scott Technology Limited's existing equity in (\$24,000) and advances to (\$409,000) this previous joint venture company.

**Fair Value Gain Arising on Acquisition**

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. The fair value gain on acquisition is reported in the Statement of Comprehensive Income.

**Goodwill Arising on Acquisition**

The consideration paid for the acquisition of the remaining 50% of the shares in Scott Separation Technology Limited 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.

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**E1. ACQUISITION OF BUSINESS (Cont.)**

**Impact of Acquisition on the Results of the Group**

Given that DC Ross was acquired from its receivers and Scott Separation Technology Limited is a very small business and was an acquisition of the other joint venture partners' shares, disclosure has not been made of the full year revenue or profit as if both acquisitions had been effected at 1 September 2016 as doing so would not be a fair representation of the performance of the combined Group on an annualised basis.

**E2. SUBSIDIARIES**

Name of Entity	Balance Date	Country of Incorporation	Ownership Interest & Voting Rights	
			2017 %	2016 %
<b>Parent Entity</b>				
Scott Technology Limited (i)	31 August	New Zealand		
<b>New Zealand Trading Subsidiaries</b>				
Scott Technology NZ Limited (ii)	31 August	New Zealand	100	100
HTS-110 Limited (iii) (***)	31 August	New Zealand	-	100
Scott Automation Limited (iv)	31 August	New Zealand	100	100
Scott Technology USA Limited (v)	31 August	New Zealand	100	100
QMT General Partner Limited (vi)	31 August	New Zealand	93	93
QMT New Zealand Limited Partnership (vii)	31 August	New Zealand	92	92
Scott Milktech Limited (viii) (***)	31 March (*)	New Zealand	-	61
Scott Separation Technology (ix)	31 August	New Zealand	100	50
<b>New Zealand Non Trading Subsidiaries</b>				
Scott LED Limited	31 August	New Zealand	100	100
Rocklabs Limited	31 August	New Zealand	100	100
<b>Overseas Subsidiaries</b>				
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

(\*) Determined by agreement between the shareholders on incorporation.

(\*\*) Determined by local regulatory requirements.

(\*\*\*) Amalgamated with Scott Technology NZ Limited on 31 March 2017

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 August 2017**

**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 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) HTS-110 Limited developed, designed and manufactured high temperature superconductor equipment. In 2015 these operations were transferred to Scott Technology NZ Limited and the company was amalgamated with Scott Technology NZ Limited on 31 March 2017.
- (iv) Scott Automation Limited’s principal activity is the design and manufacture of automation systems.
- (v) 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.
- (vi) 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.
- (vii) QMT New Zealand Limited Partnership is an investment holding entity and owns 75% of QMT Machinery Technology (Qingdao) Co Limited.
- (viii) Scott Milktech Limited’s principal activity was the development of automated solutions for the dairy industry. Scott Technology Limited acquired the shares of the minority shareholder in January 2017 and then the company was amalgamated with Scott Technology NZ Limited on 31 March 2017.
- (ix) Scott Separation Technology Limited develops and markets patented centrifuge technology with particular application to the honey and fish processing industries.

**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, including the business of Machinery Automation and Robotics which was acquired on 31 January 2015.
- (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. Remaining net assets have been impaired as disclosed in Note A1.
- (xiv) Scott Systems International Incorporated’s principal activity is in North America for the sale of robot systems under the RobotWorx 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 systems and is located in Kurnbach, Germany.

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**E3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

**Interests in Joint Ventures**

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	
		2017 %	2016 %	2017 \$'000s	2016 \$'000s
<b>Joint Ventures</b>					
Robotic Technologies Limited (i)	New Zealand	50	50	983	807
Scott Technology Euro Limited (ii)	Ireland	50	50	78	77
NS Innovations Pty Limited (iii)	Australia	50	50	-	-
Scott Separation Technology Limited (iv)(*)	New Zealand	100	50	-	26
Scott Technology S.A. (v)	Chile	50	50	50	88
Rocklabs Automation Canada Limited (vi)	Canada	50	50	7	(75)
Balance at end of financial year				1,118	923

(\*) Now reported as a subsidiary under Note E2.

- (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 \$176,000 (2016: \$264,000).
- (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 \$1,000 (2016: share of net surplus \$8,000).



**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 August 2017**

**E3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Cont.)**

- (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 deficit was \$Nil (2016 share of net deficit: \$14,000).
- (iv) Scott Separation Technology Limited (SSTL) was a joint venture between Scott Technology Limited and private individuals. SSTL was formed in December 2011 and has a balance date of 31 August. SSTL's principal activity is the marketing and development of patented centrifuge technology which has particular application to the honey and fish processing industries. Scott Technology Limited acquired its joint venture partners' shareholdings in May 2017 and it is now reported as a wholly owned subsidiary. Scott Technology Limited's share of SSTL's net deficit up to acquiring the joint venture partners' shareholdings was \$1,000 (2016: share of net surplus \$Nil).
- (v) 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 \$38,000 (2016: share of net surplus \$154,000).
- (vi) 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 \$82,000 (2016: share of net deficit \$34,000).

**Carrying value of equity accounted investments:**

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Balance at beginning of financial year	923	545
Share of net surplus	220	378
Sale of interest in joint venture	(25)	-
	<u>1,118</u>	<u>923</u>

**Summarised statement of comprehensive income of joint ventures from continuing operations:**

	<b>Joint Ventures</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Income	12,136	14,542
Expenses	(11,696)	(13,786)
	<u>440</u>	<u>756</u>
Net surplus and total comprehensive income	<u>440</u>	<u>756</u>
Group share of net surplus	<u>220</u>	<u>378</u>

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**E3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Cont.)**

**Summarised balance sheets of joint ventures:**

	<b>Joint Ventures</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Current assets	3,937	3,864
Non current assets	1,731	2,149
Current liabilities	(2,049)	(1,216)
Non current liabilities	(1,349)	(2,914)
	<u>2,270</u>	<u>1,883</u>
Net assets		
Group share of net assets	<u>1,135</u>	<u>942</u>

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**

**Group Companies**

The Group owns 50% of Robotic Technologies Limited (RTL), 50% of NS Innovations Pty Limited (NSI), 50% of Scott Technology Euro Limited (STEL), 50% of Scott Separation Technology Limited (SSTL) up to 31 May 2017, 70% of QMT Machinery Technology (Qingdao) Co Limited (QMT), 50% of Scott Technology S.A. (STSA) and 50% of Rocklabs Automation Canada Limited (RAC).

<b>Joint Ventures</b>	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Project work undertaken by the Group for RTL	8,095	12,767
Administration, sales and marketing fees charged by the Group to RTL	173	230
Sales revenue received by RTL from the Group	8,875	9,689
Advance (from)/to RTL (to)/from Scott Technology	(371)	431
Administration fees charged by the Group to STEL	6	6
Commission received by STEL from the Group	199	185
Advance from STEL to Scott Technology	(176)	(346)
Project work undertaken by the Group for SSTL	2	254
Advance from Scott Technology to SSTL	-	479
Advance from Scott Technology to NSI	-	11
Project work undertaken by the Group for STSA	1,466	759
Advance from Scott Technology to STSA	1,223	840
Project work undertaken by the Group for RAC	1,583	170
Advance from Scott Technology to RAC	686	63

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 August 2017**

**E4. RELATED PARTY TRANSACTIONS (Cont.)**

**Advances**

Advances to Group companies 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 2017 was \$4,000 (2016: \$2,000). During the year no shares vested with employees and no shares (2016: 1,164 shares) which had not vested with employees were disposed of at market value. As at 31 August 2017 17,779 (31 August 2016: 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 \$17,000 from Oakwood Group Limited during the year (2016: \$17,000).

JBS Australia Pty Limited owns a 50.1% shareholding in Scott Technology Limited. The Group has recognised sales to JBS Companies of \$3.2 million (2016: \$307,000 since acquisition date of 14 April 2016) and has made purchases from JBS Companies of \$2.5 million (2016: \$9,000 since acquisition date).

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the Year Ended 31 August 2017

**SECTION F – OTHER DISCLOSURES**

**F1. NOTES TO THE CASHFLOW STATEMENT**

*Policy*                    *The Statement of Cashflows 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 Cashflows:*

- *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.*

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
<b>Net surplus for the year</b>	10,265	8,134
<b>Adjustments for non-cash items:</b>		
Depreciation and amortisation	2,987	1,744
Net loss/(gain) on sale of property, plant and equipment	(73)	215
Deferred tax	201	618
Share of net surplus of joint ventures and associates	(220)	(378)
Impairment of net assets (QMT Machinery Technology (Qingdao) Co Ltd)	-	449
Fair value gain on purchase of business	(936)	-
<b>Add / (less) movement in working capital:</b>		
Trade debtors	(2,000)	79
Other financial assets – derivatives	1,332	172
Sundry debtors	174	(18)
Inventories	(3,929)	(927)
Contract work in progress	(5,245)	4,185
Taxation payable	1,779	750
Trade creditors and accruals	8,228	(510)
Other financial liabilities – derivatives	(619)	(17)
Employee entitlements	1,195	1,987
Provision for warranty	200	350
<b>Movements in working capital disclosed in investing/financing activities:</b>		
Working capital relating to purchase of business and non controlling interest	675	(75)
Movement in foreign exchange translation reserve relating to working capital	(607)	(201)
Impairment of net assets (QMT Machinery Technology (Qingdao) Co Ltd)	-	(449)
<b>Net cash inflow from operating activities</b>	<u>13,407</u>	<u>16,108</u>

**SCOTT TECHNOLOGY LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 August 2017**

**F2. CONTINGENT LIABILITIES**

	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Payment guarantees and performance bonds	7,711	6,071
Stock Exchange bond	75	75
Maximum contract penalty clause exposure	1,501	1,431

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:

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Short term benefits - employees	2,535	2,200
Short term benefits – executive Director	708	533
Short term benefits – non-executive Directors	193	216
Long term benefits – employees	604	614
Long term benefits – executive Director	284	279
	<u>4,324</u>	<u>3,842</u>

**F4. SUBSEQUENT EVENTS**

**Dividend**

On 12 October 2017 the Board of Directors approved a final dividend of six cents per share with full imputation credits attached to be paid for the 2017 year (2016: five and a half cents per share).

**SCOTT TECHNOLOGY LIMITED**  
**ADDITIONAL STOCK EXCHANGE INFORMATION**

**Substantial Shareholders**

Names of substantial security holder	Number of shares in which a relevant interest was held as at 15 September 2017
1. JBS Australia Pty Limited	37,415,058
2. Oakwood Securities Limited	5,500,000

The total number of issued voting securities of the company as at 15 September 2017 was 74,680,754 ordinary shares.

Distribution of Shares by Holding Size	# of Shareholders	% of Total	Number	% of Total
1 - 1,000	683	26.15	347,523	0.47
1,001 - 5,000	1,110	42.50	2,901,588	3.89
5,001 - 10,000	393	15.05	2,906,869	3.89
10,001 - 50,000	353	13.51	6,779,364	9.08
50,001 - 100,000	37	1.42	2,544,810	3.41
100,001 and over	36	1.38	59,200,600	79.27
Total and percentage	<u>2,612</u>	<u>100.00</u>	<u>74,680,754</u>	<u>100.00</u>

**Twenty Largest Shareholders as at 15 September 2017**

	Shares	% of Total
1. JBS Australia Pty Limited	37,415,058	50.10
2. New Zealand Central Securities Depository Limited	5,595,593	7.49
3. Oakwood Securities Limited	5,500,000	7.36
4. Russell John Field & Anthony James Palmer (JI Urquart Family A/C)	2,000,000	2.68
5. JB Were (NZ) Nominees Limited	1,591,492	2.13
6. Forsyth Barr Custodians Limited (1-33 A/C)	720,017	0.96
7. Leveraged Equities Finance Limited	519,247	0.70
8. Jarden Custodians Limited	479,982	0.64
9. Jack William Allan & Helen Lynette Allan	425,000	0.57
10. Rosebery Holdings Limited	375,096	0.50
11. Kenneth William Wigley	313,512	0.42
12. Custodial Services Limited (4 A/C)	303,139	0.41
13. FNZ Custodians Limited	292,949	0.39
14. Opito Investments Pty Ltd	280,000	0.37
15. Margaret Ann Ring & Richard Arthur Prevett	270,000	0.36
16. Graham William Batts and Roger Norman Macassey	248,053	0.33
17. Forsyth Barr Custodians Limited	220,890	0.30
18. Investment Custodial Services Limited	208,711	0.28
19. Harry McMillan Hearsay Salmon	200,000	0.27
20. Michael Walter Daniel, Nigel Geoffrey Burton and Michael Murray Benjamin	200,000	0.27
21. Custodial Services Limited (3 A/C)	197,726	0.26
	<u>57,356,465</u>	<u>76.79</u>

**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
\$100,000 - \$110,000	22	\$210,001 - \$220,000	2
\$110,001 - \$120,000	18	\$240,001 - \$250,000	2
\$120,001 - \$130,000	15	\$250,001 - \$260,000	1
\$130,001 - \$140,000	14	\$280,001 - \$290,000	1
\$140,001 - \$150,000	10	\$330,001 - \$340,000	1
\$150,001 - \$160,000	9	\$340,001 - \$350,000	1
\$160,001 - \$170,000	7	\$350,001 - \$360,000	1
\$170,001 - \$180,000	8	\$370,001 - \$380,000	1
\$180,001 - \$190,000	6	\$420,001 - \$430,000	1
\$190,001 - \$200,000	1	\$440,001 - \$450,000	1
\$200,001 - \$210,000	1	\$490,001 - \$500,000	1

**SCOTT TECHNOLOGY LIMITED**  
**DIRECTORS' INTERESTS**  
For the Year Ended 31 August 2017

**Directors' Shareholding as at 31 August 2017**

	Beneficially Owned		Held by associated persons		Non-beneficially held * (jointly)	
	2017	2016	2017	2016	2017	2016
C C Hopkins**	54,526	127,761	5,609,410	5,534,410	17,779	17,779
S J McLauchlan	375,096	375,096	-	-	17,779	17,779
M B Waller	90,562	90,562	-	-	-	-
C J Staynes	228,375	228,375	-	-	-	-
A Nogueira	-	-	-	-	37,415,058	37,415,058
B Eastwood	-	-	-	-	37,415,058	37,415,058
E Alvares	-	-	-	-	37,415,058	37,415,058
J Berry (alternate)	-	-	-	-	37,415,058	-
	<u>748,559</u>	<u>821,794</u>	<u>5,609,410</u>	<u>5,534,410</u>		

\* 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, B Eastwood, E Alvares and J 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)	1,765	12 Dec 2016	4
C C Hopkins (beneficially)	(75,000)	13 Apr 2017	-
C C Hopkins (associated person)	75,000	13 Apr 2017	-

**Use of Company Information**

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

**SCOTT TECHNOLOGY LIMITED**  
**DIRECTORS' INTERESTS**  
**For the Year Ended 31 August 2017**

**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:

**C J Staynes**

Councillor Dunedin City Council  
 Chairman Cargill Enterprises  
 Director Cancer Society Otago & Southland Branch  
 Director Otago Chamber of Commerce & Industry  
 Director Wine Freedom Ltd  
 Trustee 4Trades Apprenticeship Training Trust  
 Trustee OSMA Trust  
 Trustee Otago Museum Trust Board

**A Nogueira**

Chief Executive JBS USA  
 Director 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 Finco, Inc  
 Director JBS Green Bay, Inc  
 Director JBS Live Prok, 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 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  
 Member Rabobank's North American Agribusiness Advisory Board

**C C Hopkins**

Chairman Robotic Technologies Ltd  
 Chairman NS Innovations Pty Ltd  
 Director Applied Sorting Technologies Pty Ltd  
 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 Australia Pty Ltd  
 Director Scott Technology Euro Ltd  
 Director Scott Technology NZ Ltd  
 Director Scott Technology USA Ltd  
 Trustee Scott Technology Employee Share Purchase Scheme  
 Shareholder Penfold Transmission Ltd

**M B Waller**

Chairman & Director Ebos Group Ltd & Associated Companies

**E Alvares**

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

**J K Berry (alternate for A Nogueira)**

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



**SCOTT TECHNOLOGY LIMITED**  
**DIRECTORS' INTERESTS**  
**For the Year Ended 31 August 2017**

**B Eastwood**

Chief Executive & Director	JBS Australia Pty Ltd and Associated Companies
Director	Afoofa Development Pty Ltd
Director	Andrews Meat Industries Pty Ltd
Director	Enunga Enterprises Pty Ltd
Director	J & F Australia 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
Member	Business Council of Australia

**S J McLauchlan**

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

**SCOTT TECHNOLOGY LIMITED**  
**DIRECTORS' INTERESTS**  
For the Year Ended 31 August 2017

**Remuneration of Directors**

During the year ended 31 August 2017, 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*	-	380	328	284
S J McLauchlan	92	-	-	-
M B Waller	55	-	-	-
C J Staynes	46	-	-	-
A Nogueira**	-	-	-	-
B Eastwood**	-	-	-	-
E Alvares**	-	-	-	-
J 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.

**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:

	2017 Male	2017 Female	2016 Male	2016 Female
Directors (excluding alternate)	7	-	7	-
Executive Officers	8	2	7	2
Senior Management	9	3	9	3
	<u>24</u>	<u>5</u>	<u>23</u>	<u>5</u>

**Donations**

The Company made donations of less than \$1,000 during the year (2016: \$11,000).

## 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 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cashflows 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 3 to 45, present fairly, in all material respects, the consolidated financial position of the Group as at 31 August 2017, 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.

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

#### Audit materiality

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

We determined materiality for the Group financial statements as a whole to be \$700,000.

#### 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.

### 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 a number of occurrences 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.
- **Lookback procedures** – For a sample of projects in place at the end of the prior year, we compared current year actual information to prior year forecasts to assess the reliability of the forecast cost to complete determined by management.
- **Testing of contract revenue** – For a sample of contracts, we have 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;
  - Tested contract costs incurred during the year to validate the costs and assess whether they have been applied to contracts appropriately.

### Goodwill and Indefinite Life Intangible Assets Impairment Assessment

As at 31 August 2017, there are \$30.0million (2016: \$29.9million) of goodwill and \$1.5m (2016: \$1.5m) of indefinite life intangible assets (URL's) included on the balance sheet of the Group as detailed in notes B5 and B6. The balance is held across three cash generating units.

In accordance with NZ IAS 36, the Group is required 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: Impairment of Assets. 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** – 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 tested 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.

**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  
12 October 2017