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 2019 and the results of their operations and cash flows for the year ended 31 August 2019.

The Directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied and are 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 2019.

These financial statements are dated 24 October 2019 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
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended 31 August 2019

SCOTT TECHNOLOGY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 August 2019

	Note	2019 $'000s	2018 $'000s (restated)
Revenue	A1	225,093	181,779
Other operating income	A1	2,441	2,064
Share of joint ventures' net surplus	E3	444	510
Raw materials, consumables used & operating expenses		(134,792)	(109,381)
Employee benefits expense		(73,176)	(55,171)
OPERATING EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (OPERATING EBITDA)		20,010	19,801
Due diligence & acquisition costs		-	(496)
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)	A1	20,010	19,305
Interest revenue		20	369
Depreciation & amortisation	B4, B6, C5	(8,969)	(4,225)
Finance costs		(1,715)	(403)
NET SURPLUS BEFORE TAXATION		9,346	15,046
Taxation expense	A2	(742)	(4,274)
NET SURPLUS FOR THE YEAR AFTER TAX		8,604	10,772
Other Comprehensive Income/(Deficit)			
Items that may be reclassified to profit or loss:			
Cash flow hedges	C7	370	(370)
Translation of foreign operations		765	(134)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		9,739	10,268
Net surplus for the year after tax is attributable to:			
Members of the parent entity (used in the calculation of earnings per share)		8,690	10,768
Non controlling interests		(86)	4
		8,604	10,772
Total comprehensive income is attributable to:			
Members of the parent entity		9,825	10,264
Non controlling interests		(86)	4
		9,739	10,268

	Note	2019 Cents Per Share	2018 Cents Per Share
Earnings per share (weighted average shares on issue):			
Basic	C2	11.3	14.3
Diluted	C2	11.3	14.3
Net tangible assets per ordinary share (at year end):			
Basic	C2	50.4	47.0
Diluted	C2	50.4	47.0

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SCOTT TECHNOLOGY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 August 2019

	Note	Fully Paid Ordinary Shares $'000s	Retained Earnings $'000s	Foreign Currency Translation Reserve $'000s (restated)	Non-Controlling Assets $'000s	Cash flow Hedge Reserves $'000s	Total $'000s (restated)
Balance at 31 August 2017		71,312	28,064	(801)	47	-	98,622
Net surplus for the year after tax		-	10,768	-	4	-	10,772
Other comprehensive (deficit) for the year net of tax (restated)		-	-	(134)	-	(370)	(504)
Dividends paid (10.0 cents per share)		-	(7,497)	-	-	-	(7,497)
Issue of shares under dividend reinvestment plan	C1	4,335	-	-	-	-	4,335
Balance at 31 August 2018 (restated)		75,647	31,335	(935)	51	(370)	105,728
Change in accounting policy	A1	-	(450)	-	-	-	(450)
1 September 2018 after change in accounting policy		75,647	30,885	(935)	51	(370)	105,278
Net surplus for the year after tax		-	8,690	-	(86)	-	8,604
Other comprehensive income for the year net of tax		-	-	765	-	370	1,135
Dividends paid (10.0 cents per share)		-	(7,626)	-	-	-	(7,626)
Issue of shares under dividend reinvestment plan	C1	4,426	-	-	-	-	4,426
Balance at 31 August 2019		80,073	31,949	(170)	(35)	-	111,817

SCOTT TECHNOLOGY LIMITED
CONSOLIDATED BALANCE SHEET
As at 31 August 2019

	Note	2019 $'000s	2018 $'000s (restated)
CURRENT ASSETS			
Cash and cash equivalents		-	12,473
Trade debtors	B1	38,993	37,064
Other financial assets	C6	1,207	1,229
Sundry debtors		3,204	3,523
Inventories	B2	22,559	22,825
Contract assets	B3	32,863	24,495
Receivable from joint ventures	E4	1,552	2,315
Plant and equipment held for sale		345	345
		100,723	104,269
NON CURRENT ASSETS			
Property, plant and equipment	B4	20,259	16,845
Capital work in progress		-	254
Investment in joint ventures	E3	1,371	928
Other investments		400	-
Other financial assets	C6	9	350
Goodwill	B5	57,951	56,561
Intangible assets	B6	15,405	15,103
Right of use asset	C5	16,996	-
		112,391	90,041
TOTAL ASSETS		213,114	194,310
CURRENT LIABILITIES			
Bank overdraft		4,737	-
Trade creditors and accruals	C4	31,057	30,322
Lease liabilities	C5	4,081	187
Other financial liabilities	C6	2,541	2,013
Contract liabilities	B3	16,529	21,418
Employee entitlements	C8, C10	10,298	11,286
Provision for warranty	C9	1,546	1,857
Taxation payable		218	2,738
Payable to joint ventures	E4	393	673
Current portion of term loans	C3	4,217	3,321
Deferred settlement on purchase of business	E1	2,385	6,275
		78,002	80,090
NON CURRENT LIABILITIES			
Other financial liabilities	C6	969	964
Employee entitlements	C8, C10	939	1,643
Lease liabilities	C5	13,311	159
Deferred tax liability	A2	626	1,638
Term loans	C3	7,450	4,088
		23,295	8,492
EQUITY			
Share capital	C1	80,073	75,647
Retained earnings		31,949	31,335
Foreign currency translation reserve		(170)	(935)
Cash flow hedge reserve	C7	-	(370)
Equity attributable to equity holders of the parent		111,852	105,677
Non controlling interests		(35)	51
TOTAL EQUITY		111,817	105,728
TOTAL LIABILITIES & EQUITY		213,114	194,310

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SCOTT TECHNOLOGY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended 31 August 2019

	Note	2019 $'000s	2018 $'000s (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from / (applied to):			
Receipts from operations		213,712	178,338
Interest received		20	369
Net GST refunded / (paid)		109	(825)
Payments to suppliers and employees		(208,218)	(172,597)
Taxation paid		(4,897)	(4,267)
Net cash inflow from operating activities	F1	726	1,018
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from / (applied to):			
Purchase of property, plant, equipment and intangible assets		(7,229)	(2,434)
Sale of property, plant and equipment		266	21
Net advances from joint ventures		479	420
Purchase of business	E1	(6,803)	(14,479)
Purchase of investments		(400)	-
Net cash outflow from investing activities		(13,687)	(16,472)
CASH FLOWS (TO) / FROM FINANCING ACTIVITIES			
Cash was provided from / (applied to):			
Repayment of borrowings	F1	(742)	(257)
Dividends paid		(3,200)	(3,162)
Proceeds from borrowings		5,000	5,079
Lease payments	F1	(3,592)	-
Interest paid		(1,715)	(403)
Net cash (outflow) / inflow from financing activities		(4,249)	1,257
Net decrease in cash held		(17,210)	(14,197)
Add cash and cash equivalents at start of period		12,473	26,670
Balance at end of period		(4,737)	12,473
Comprised of:			
Cash and (bank overdraft) / bank balances		(4,737)	12,473

SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

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

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

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

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

The financial statements were authorised for issue by the Board of Directors on 24 October 2019.

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 2019 and the comparative information presented in these financial statements for the year ended 31 August 2018.

There have been no changes in accounting policy during the year, except those that arose from the adoption of new accounting standards effective during the year.

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

Critical Judgements, Estimates and Assumptions

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

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

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

- Estimating the percentage of completion for long term construction contracts (note A1)
- Goodwill impairment (note B5)
- Lease model inputs including incremental borrowing rate (IBR) and lease renewal options (note C5)
- Valuation of intangibles recognised on acquisition (note E1)

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, 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 Consolidated 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, including early adopting NZ IFRS 16 *Leases*. The impact of NZ IFRS 9, NZ IFRS 15 and NZ IFRS 16 are noted below. In the current year the Group has split contract assets and contract liabilities on the face on the balance sheet and restated prior year comparatives. All other new and amended standards have not had a material impact on the financial statements of the Group.

NZ IFRS 9 *Financial Instruments*

In the current period, the Group has applied NZ IFRS 9 *Financial Instruments* and the related consequential amendments to other NZ IFRS standards that are effective for an annual period that begins on or after 1 January 2018. In accordance with the transition provisions of NZ IFRS 9, the Group has not restated comparatives.

All recognised financial assets that are within the scope of NZ IFRS 9 are required to be measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Cash and cash equivalents and trade debtors were previously classified as 'loans and receivables' and measured at amortised cost. In accordance with NZ IFRS 9, these are initially recognised at fair value and subsequently measured at amortised cost as they are held within a business model to collect contractual cash flows and these cash flow consist solely of payments of principal and interest. They are classified as financial assets held at amortised cost.

Derivatives are initially recognised at fair value and are subsequently recognised at fair value through the profit and loss, in line with treatment in the previous period. As the new hedge accounting requirements align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicated that they qualified as continuing hedging relationships upon application of NZ IFRS 9. Similar to the Group's current hedge accounting policy, the Directors do not intend to exclude the forward element of foreign currency forward contracts from designated hedging relationships.

SUMMARY OF ACCOUNTING POLICIES (Cont.)

Adoption of NZ IFRS 9 *Financial Instruments* from 1 September 2018 has not resulted in material adjustments to the amount recognised in the financial statements. There was no change to the measurement basis of the financial assets other than the introduction of the expected credit loss model for determining the loss allowance on trade debtors.

In relation to the impairment of financial assets, NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NZ IFRS 9 requires a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit loss (ECL) for trade debtors that do not contain a significant financing component. The Group has applied the simplified model.

No adjustment to the loss allowance was recognised on application of NZ IFRS 9.

Financial liabilities, other than derivatives, continue to be measured at amortised cost using the effective interest rate.

NZ IFRS 15 *Revenue from contracts with customers*

In the current year, the Group has applied NZ IFRS 15 *Revenue from contracts with customers* which is effective for periods beginning on or after 1 January 2018. NZ IFRS 15 introduced a five step approach to revenue recognition. Far more prescriptive guidance has been added to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below and in Note A1.

In accordance with the transition provisions of NZ IFRS 15 adopting the modified retrospective approach, the Group has not restated the comparatives.

NZ IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology in NZ IFRS 15 to describe such balances.

The Group's accounting policies for its revenue streams are disclosed in detail in note A1. Apart from providing more extensive disclosure for the Group's revenue transactions, the application of NZ IFRS 15 has had minimal impact on the net financial position and/or net financial performance of the Group. The effect on the Group's financial information for adopting NZ IFRS 15 is described in note A1.

NZ IFRS 16 *Leases*

General impact of application of NZ IFRS 16 *Leases*

In the current period, the Group, for the first time, has applied NZ IFRS 16 *Leases* (as issued by the IASB in January 2016) in advance of its effective date.

NZ IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. Details of the new requirements and impact of the adoption of NZ IFRS 16 on the Group's consolidated financial statements are described in note C5.

The date of initial application of NZ IFRS 16 for the Group is 1 September 2018.

The Group has applied NZ IFRS 16 using the modified retrospective approach, with no effect on prior periods. The effect of this change is discussed in note C5.

SUMMARY OF ACCOUNTING POLICIES (Cont.)

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to NZ IFRS 16 not to reassess whether a contract is or may contain a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before 1 September 2018.

The change in definition of a lease mainly relates to the concept of control. NZ IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in NZ IFRS 16 to all lease contracts entered into or modified on or after 1 September 2018. The first time application of NZ IFRS 16 does not significantly change the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

NZ IFRS 16 changes how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off balance sheet. Applying NZ IFRS 16 for all leases, except as noted below, the Group:

- Recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive income; and
- Separates the total amount of cash paid into a principal portion, presented within financing activities, and interest, presented within operating activities, in the Consolidated Statement of Cash Flows.

Under NZ IFRS 16, right-of-use assets are tested for impairment in accordance with NZ IAS 36 *Impairment of Assets.* This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases with a lease term of 12 months or less, and leases of low-value assets, such as personal computers and office furniture, the Group has opted to apply the recognition exemption as allowed under NZ IFRS 16 and recognise the lease expense on a straight line basis. The expense is presented within other expenses in the Consolidated Statement of Comprehensive Income.

The main difference between NZ IFRS 16 and NZ IAS 17 with respect to assets formally held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. NZ IFRS 16 requires that the Group recognises as part of if its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by NZ IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Standards & Interpretations in Issue Not Yet Adopted

At the date of authorisation of the consolidated financial statements certain new standards and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all pronouncements will be adopted in the first accounting period beginning on or after the effective date of the new standard. These standards are not expected to have a material effect on the Group's consolidated financial statements when they are adopted

SUMMARY OF ACCOUNTING POLICIES (Cont.)

Restatements and Reclassifications

Goodwill

An adjustment has been made in the 2019 financial year to recognise the foreign exchange impact on goodwill associated with entities purchased in foreign currencies. These balances were previously held in the functional currency of the Group, but have been restated to the functional currency of the underlying operations of the acquired entities. This adjustment only impacted the Consolidated Balance Sheet, with a $2.78 million increase to goodwill and equity at 31 August 2018 and a $1.46 million increase to goodwill and equity at 1 September 2017. There was no impact on the Consolidated Statement of Comprehensive Income or the Consolidated Statement of Cash Flows.

Consolidated Statement of Cash Flows

A change has been made in the 2019 financial year to classify interest paid in the Consolidated Statement of Cash Flows as a financing activity rather than as an operating activity. In the current year the Group has adopted NZ IFRS 16. This had the impact of increasing the interest expense of the Group, while also disclosing the principal portion of lease liability paid as a financing activity in the Consolidated Statement of Cash Flows. The Group has also further increased its level of debt in the current period primarily to fund recent acquisitions. Due to these factors, the Directors believe it is more appropriate to disclose interest paid as a financing activity. This adjustment has only impacted the Consolidated Statement of Cash Flows and note F1, Notes to the Consolidated Statement of Cash Flows, for the prior period. This had the effect of increasing net cash inflow from operating activities by $403,000 to $1,018,000 while decreasing the net cash inflow from financing activity by $403,000 to $1,257,000. There was no impact on the Consolidated Statement of Comprehensive Income or the Consolidated Balance Sheet.

The Directors have not included the original amounts and the adjustment as we consider this would not be meaningful to users of the financial statements.

Goods & Services Tax & Value Added Tax ("GST")

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

Cash flows are included in the Consolidated Statement of Cash Flows 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 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.

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SECTION A – FINANCIAL PERFORMANCE

A1. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OPERATING EXPENSES

(a) Accounting policies and significant judgements

The Group derives revenue from the following sources:

- Long term contracts
- Standard equipment
- Short term projects and service work

Revenue recognition – long term contracts

The Group designs, manufactures and sells customised automation and robotic systems for use in a wide range of industries under fixed-price contracts. The contract period is in excess of three months and is often in excess of twelve months. Long term contracts are specific to each customer and the Group is restricted by these contracts to redirect the products to another customer. The Group, through these long term contracts, has an enforceable right to payment when agreed milestones are met for performance completed up to a point in time.

Policy — *Revenue on long term contracts is recognised over the term of the contract period using the input method based on percentage of completion. At balance date an assessment is made of the percentage of completion based on the costs associated with the work done to date relative to the total forecast cost to complete. Included in revenue is the value attributed to work completed, which includes direct costs, overhead and profit, where this is allowable under the contract.*

The customer is obligated to pay a fixed amount when a contractual milestone is met. At this time, a receivable is recognised as the invoice is raised. If the revenue recognised by the Group exceeds the amounts invoiced, a contract asset is recognised. If the amounts invoiced exceed the revenue recognised, a contract liability is recognised. The transaction price is the fixed price per the contract.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see Note C9).

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

Revenue recognition – standard equipment

The Group manufactures and sells a range of standalone automation and robotic equipment for use in a wide range of industries, including:

- Rock crushers, pulverisers, ringmills and reference materials under the "RobotWorx" brand for use by mining companies and laboratories
- Bandsaw safety equipment under the "Bladestop" brand, primarily for use by meat processors
- High temperature superconductor current leads under the "HTS-110" brand
- New and refurbished industrial robots under the "RobotWorx" brand

A1. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OPERATING EXPENSES (Cont.)

Policy

Revenue is recognised in full at a point in time when control of the products has transferred, being either when the products are shipped to or received by the customer, or installed at the customer's premises, depending on the terms of the contract.

A receivable is recognised when either a deposit is due on receipt of a customer's order or when the products are shipped to the customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see Note C9).

Revenue recognition – short term projects and service work

The Group undertakes short term projects (less than three months) for the design, manufacture and sale of customised small scale automation and robotic systems for use in a wide range of industries under fixed-price contracts. In some cases the short term project contracts contain an enforceable right to payment for performance completed to date.

The Group also earns revenue from after sales service activities associated with the equipment manufactured and sold by the Group, including spare parts, repairs, routine or scheduled maintenance, upgrades, remote monitoring and the operation of a 24/7 helpline. Most of these activities are on an ad hoc, as required basis, while some of these activities are covered by an agreement for services to be provided over a specified period of time.

Policy

Where the short term project contract contains an enforceable right to payment for performance completed to date and there is no alternative use, revenue for short term projects is recognised over time on the same basis as for long term contracts (as noted above).

Where the short term project contract does not contain an enforceable right to payment for performance completed to date or there is an alternative use for the product produced, revenue for short term projects is recognised in full at a point in time when control of the products has transferred, being either when the products are shipped to or received by the customer, or installed at the customer's premises, depending on the terms of the contract. A receivable is recognised when either a deposit is due on receipt of a customer's order or when the products are shipped to the customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue under service contracts is recognised over time as the customer simultaneously receives and consumes the benefits provided the Group's performance as it performs the service.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see Note C9).

A1. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OPERATING EXPENSES (Cont.)

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major geographic manufacturing regions (segments) and revenue streams. This is consistent with the revenue information disclosed for each reportable segment under NZ IFRS 8 *Operating segments*, (see note A3).

Period Ended 31 August 2019

Australasia manufacturing

	Long term contracts $'000s	Standard equipment $'000s	Short term projects and service work $'000s	Total $'000s
Segment revenue	54,666	38,583	13,251	106,500
Inter-segment revenue	(1,551)	(1,991)	(198)	(3,740)
Revenue from external customers	53,115	36,592	13,053	102,760
Timing of revenue recognition				
- At a point in time	-	36,592	13,053	49,645
- Over time	53,115	-	-	53,115
	53,115	36,592	13,053	102,760

Americas manufacturing

	Long term contracts $'000s	Standard equipment $'000s	Short term projects and service work $'000s	Total $'000s
Segment revenue	10,578	20,906	2,091	33,575
Inter-segment revenue	74	1,954	27	2,055
Revenue from external customers	10,652	22,860	2,118	35,630
Timing of revenue recognition				
- At a point in time	-	22,860	2,118	24,978
- Over time	10,652	-	-	10,652
	10,652	22,860	2,118	35,630

Asia & Europe manufacturing

	Long term contracts $'000s	Standard equipment $'000s	Short term projects and service work $'000s	Total $'000s
Segment revenue	62,690	4,310	18,018	85,018
Inter-segment revenue	1,477	37	171	1,685
Revenue from external customers	64,167	4,347	18,189	86,703
Timing of revenue recognition				
- At a point in time	-	4,347	18,189	22,536
- Over time	64,167	-	-	64,167
	64,167	4,347	18,189	86,703

Total manufacturing

	Long term contracts $'000s	Standard equipment $'000s	Short term projects and service work $'000s	Total $'000s
Segment revenue	127,934	63,799	33,360	225,093
Inter-segment revenue	-	-	-	-
Revenue from external customers	127,934	63,799	33,360	225,093
Timing of revenue recognition				
- At a point in time	-	63,799	33,360	97,159
- Over time	127,934	-	-	127,934
	127,934	63,799	33,360	225,093

A1. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OPERATING EXPENSES (Cont.)

Period Ended 31 August 2018

	Total $'000s
Long term contracts	104,756
Standard equipment	55,446
Short term projects & service work	21,577
	181,779

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	2019 $'000s
Revenue recognised included in the contract liability balance at the beginning of the period	
Contracts for long term projects	20,951

There was no revenue recognised from performance obligations satisfied in previous periods on long term projects.

Unsatisfied long term project contracts

The following table shows unsatisfied performance obligations resulting from fixed price long term project contracts.

	2019 $'000s
Aggregate amount of the transaction price allocated to long term project contracts that are partially or fully unsatisfied as at 31 August	78,205

Management expects that 95% of the transaction price allocated to the unsatisfied contracts as of 31 August 2019 will be recognised as revenue during the next reporting period ($74 million). The remaining 5% ($4 million) will be recognised in the 2021 financial year.

A1. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OPERATING EXPENSES (Cont.)

The Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* for the first time on 1 September 2018. The Group applied NZ IFRS 15 using the cumulative retrospective approach with the cumulative effect of applying the standard for the first time recognised at the initial date of application. Application of NZ IFRS 15, which became effective on 1 September 2018, resulted in a change in timing of revenue recognition for certain short term projects previously recognised on a percentage of completion basis and now being recognised at a point in time and treated as the sale of standard equipment. This has resulted in an increase in revenue and expenses from operations, and an increase in net surplus before taxation for the twelve months ended 31 August 2019. The adjustments to revenue and expenses totalling a net profit increase of $450,000 were recognised in the prior period under NZ IAS 18 and have been adjusted through opening equity to allow the later revenue recognition in the current period to comply with the amended accounting policy under NZ IFRS 15. The Consolidated Balance Sheet is impacted with $450,000 moving from contract assets to inventories.

The table below shows the amount by which the Consolidated Statement of Comprehensive Income is affected in the current reporting period by NZ IFRS 15 as compared to NZ IAS 18 and the related interpretations that were in effect before the change.

	NZ IAS 18 31 August 19 $'000s	**Adjustment 31 August 19 $'000s**	**NZ IFRS 15 31 August 19 $'000s**
Revenue	223,630	1,463	225,093
Other income and share of joint ventures' net surplus	2,885	-	2,885
Raw materials, consumables used & operating expenses	(206,955)	(1,013)	(207,968)
	19,560	450	20,010

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A1. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OPERATING EXPENSES (Cont.)

(d) Other operating income

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.

	2019 $'000s	2018 $'000s
Rental income	178	203
Government grants related to research and development	2,026	1,861
Gain on sale of property, plant and equipment	237	-
	2,441	2,064

(e) Operating expenses

		Note	2019 $'000s	2018 $'000s
The surplus is stated after charging:				
Auditor's remuneration	audit of financial statements		440	210
	other assurance services		5	5
	taxation services		55	55
	due diligence services		-	271

The auditor of the Group is Deloitte Limited.

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

	Note	2019 $'000s	2018 $'000s
Directors' fees		227	208
Superannuation scheme contributions		7,543	4,148
Leasing and rental costs		1,527	3,027
Unrealised fair value losses on foreign exchange derivatives	D1	1,334	271
Gain on disposal of property, plant and equipment		-	21
Fair value losses on derivatives held as fair value hedges	D1	1,216	1,579
Unrealised fair value losses on interest rate swap contracts	D1	346	43
and after crediting:			
Foreign exchange gains		8	1,627
Fair value gains on firm commitments		1,216	1,579
Loss on disposal of property, plant and equipment		(106)	-

A2. INCOME TAXES

Income Tax Recognised in Net Surplus

Policy — *Current tax is calculated by reference to the amount of income taxes payable or receivable 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:

	2019 $'000s	2018 $'000s
Net surplus before tax	9,346	15,046
Income tax expense calculated at 28% (2018: 28%)	2,617	4,213
Non-deductible expenses / non-assessable income	(559)	426
Research & development tax credits claimed (Australia)	(1,112)	(563)
Under/(over) provision of income tax in previous year	(204)	198
Taxation expense	742	4,274
Represented by:		
Current tax	2,341	2,733
Deferred tax	(1,599)	1,541
	742	4,274

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 2019 income tax year.

Deferred Tax Balances

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

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

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

A2. INCOME TAXES (Cont.)

2019	Opening Balance $'000s	Charged to Income $'000s	Charged to Other Comprehensive Income $'000s	Acquisition of Subsidiary/ Business $'000s	Closing Balance $'000s
Gross deferred tax assets:					
Trade debtors	438	(37)	-	-	401
Other financial assets	483	608	(143)	-	948
Employee entitlements	1,183	41	-	-	1,224
Provisions	696	93	-	-	789
Tax losses	7	30	-	-	37
	2,807	735	(143)	-	3,399
Gross deferred tax liabilities:					
Inventories	630	(263)	-	-	367
Property, plant and equipment	1,952	(417)	-	-	1,535
Intangible assets	1,863	(184)	-	444	2,123
	4,445	(864)	-	444	4,025
	(1,638)	1,599	(143)	(444)	(626)

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

Imputation Credit Account Balances

	2019 $'000s	2018 $'000s
Imputation credits available to shareholders	176	1,906

A3. SEGMENT INFORMATION

Policy

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

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

- *Australasia manufacturing*
- *Americas manufacturing*
- *Asia and Europe manufacturing*

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

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

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

Segment Revenues & Results

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

2019	**Australasia Manufacturing $'000s**	**Americas Manufacturing $'000s**	**Asia & Europe Manufacturing $'000s**	**Unallocated $'000s**	**Total $'000s**
Revenue	102,760	35,630	86,703	-	225,093
Segment profit	16,426	4,915	6,048	-	27,389
Depreciation and amortisation	(3,720)	(323)	(4,416)	(510)	(8,969)
Share of net surplus of joint ventures	(216)	605	55	-	444
Interest revenue	-	-	10	10	20
Central administration costs	-	-	-	(7,823)	(7,823)
Finance costs	(120)	(147)	(631)	(817)	(1,715)
Net surplus before taxation	12,370	5,050	1,066	(9,140)	9,346
Taxation expense	(3,152)	(959)	637	2,732	(742)
Net surplus after taxation	9,218	4,091	1,703	(6,408)	8,604

A3. SEGMENT INFORMATION (Cont.)

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

Revenue reported above represents revenue generated from external customers. Inter-segment sales, which are eliminated on consolidation, were $3.0 million for the year ended 31 August 2019 (2018: $7.1 million).

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

Industry information

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

	2019 $'000s	2018 $'000s
Appliances	45,489	41,069
Materials handling and logistics	60,542	26,708
Meat processing	34,506	45,032
Mining	30,324	33,313
Other industrial automation (including robotics)	54,232	35,657
	225,093	181,779

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A3. SEGMENT INFORMATION (Cont.)

Geographical information

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

	2019 $'000s	2018 $'000s
New Zealand (country of domicile)	9,200	11,840
Australia and Pacific Islands	46,633	47,505
North America, including Mexico	69,168	51,450
South America	2,502	6,270
Asia	11,810	10,609
Europe	74,920	46,370
Russia and former states	6,477	2,983
Africa and Middle East	4,383	4,752
	225,093	181,779

The Group holds $35.6 million of non-current assets in geographical areas outside of New Zealand, the country of domicile (2018: $20.2 million).

Information about major customers

Sales to the Group's largest single customer, who is from the Australasia Manufacturing segment and the Appliance industry, accounted for approximately 5.6% of total Group sales (2018: Australasia Manufacturing segment and the Meat Industry 6.7%).

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, less any provision for expected credit losses. The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure of default.*

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor's current financial position, adjusted for factors that are specific to the conditions of the industry in which the debtor operates and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Provision for expected credit losses is recognised in profit or loss.

	2019 $'000s	2018 $'000s
Trade debtors	40,487	37,625
Allowance for expected credit losses (note D1)	(1,494)	(561)
	38,993	37,064

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 trade debtors.

B2. INVENTORIES

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

	2019 $'000s	2018 $'000s
Raw materials	9,385	5,396
Work in progress	1,409	713
Finished goods	11,765	16,716
	22,559	22,825

Write Downs

The cost of inventories recognised as an expense during the year includes $0.3 million (2018: $0.3 million) in respect of write downs of inventory to net realisable value.

B3. CONTRACT ASSETS/LIABILITIES

Policy *Contract assets are balances due from customers under long term project contracts that arise when the Group receives payments from customers' in line with a series of performance related milestones. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to a trade debtor at the point at which it is invoiced to the customer.*

Contract liabilities relating to long term project contracts are balances due to customers under long term project contracts. These arise if a particular milestone payment exceeds the revenue recognised to date.

Assets and liabilities related to contracts with customers

The Group becomes entitled to invoice customers for long term projects when certain milestones are met. These milestones and revenue amounts are agreed upfront with the customer when the contract is signed. When a particular milestone is reached, the customer is sent an invoice and any revenue previously recognised as a contract asset is reclassified to trade receivables at this time. If the invoice milestone payment exceeds the revenue recognised under the percentage of completion method, the Group will recognise a contract liability for the difference. There is not considered to be a significant financing component in long term projects under the percentage of completion method as the period between the recognition of revenue and the milestone payments is always less than one year.

	2019 $'000s	2018 $'000s
Contract assets	32,863	24,495
Contract liabilities	(16,529)	(21,418)
	16,334	3,077

B4. PROPERTY, PLANT & EQUIPMENT

Policy

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

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

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

	Freehold Land at Cost $'000s	Freehold Buildings at Cost $'000s	Plant, Equipment & Vehicles at Cost $'000s	Total $'000s
Gross carrying amount				
As at 31 August 2017	2,429	7,065	21,728	31,222
Acquisitions through business combinations	3	629	2,767	3,399
Additions	-	84	1,723	1,807
Disposals	-	-	(533)	(533)
As at 31 August 2018	2,432	7,778	25,685	35,895
Acquisitions through business combinations	-	-	39	39
Additions	-	4,657	1,866	6,523
Disposals	-	-	(302)	(302)
As at 31 August 2019	2,432	12,435	27,288	42,155
Accumulated depreciation & impairment				
As at 31 August 2017	-	1,972	15,001	16,973
Disposals	-	-	(490)	(490)
Depreciation expense	-	217	2,350	2,567
As at 31 August 2018	-	2,189	16,861	19,050
Disposals	-	-	(299)	(299)
Depreciation expense	-	445	2,700	3,145
As at 31 August 2019	-	2,634	19,262	21,896
Net book value				
As at 31 August 2018	2,432	5,589	8,824	16,845
As at 31 August 2019	2,432	9,801	8,026	20,259

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.

	2019 $'000s	2018 $'000s (restated)
Gross Carrying Amount		
Balance at beginning of financial year	56,561	31,453
Additional amounts recognised from business combinations occurring during the period (refer Note E1)	758	23,793
Translation of goodwill amounts held in foreign currency	632	1,315
Balance at end of financial year	57,951	56,561

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

Judgement

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

Allocation of Goodwill to Cash-Generating Units

The Group's cash-generating units are:

- Australasia manufacturing
- Americas manufacturing
- Asia and Europe manufacturing

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

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

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

B5. GOODWILL (Cont.)

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

	2019 $'000s	2018 $'000s (restated)
Australasia manufacturing	24,028	24,338
Americas manufacturing	15,324	14,514
Asia and Europe Manufacturing	18,599	17,709
	57,951	56,561

The recoverable amount of each cash-generating unit is determined based on a value in use calculation which uses cashflow projections based on financial budgets and forecasts covering a five-year period, and using the Group's approximate weighted average cost of capital as the discount rate. The discount rate used is 10.6%.

Cashflow projections during the budget and forecast period for each 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 each cash-generating unit.

B6. INTANGIBLE ASSETS

Policy

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

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

At each balance sheet date, the Group reviews the carrying amounts of its non financial tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Goodwill is tested for impairment annually. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of a cash-generating unit, (CGU), is estimated to be less than its carrying amount, the carrying amount of the CGU 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 CGU 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 CGU in prior years. A reversal of an impairment loss is recognised as income immediately unless the asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairment losses in relation to goodwill are not reversed.

B6. INTANGIBLE ASSETS (Cont.)

	Conveyor & Palletiser Technology at Cost	Bladestop Technology at Cost	URLs at Cost	Non-compete at Cost	HTS Technology at Cost	Centrifuge Technology at Cost	Automated Grading Technology at cost	Total
	$000's	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Gross carrying amount								
As at 31 August 2017	-	10,568	1,492	69	271	338	-	12,738
Acquisitions through business combinations	4,758	-	-	-	-	-	-	4,758
Additions	681	-	-	-	11	-	-	692
As at 31 August 2018	5,439	10,568	1,492	69	282	338	-	18,188
Acquisitions through business combinations	-	-	-	-	-	-	1,586	1,586
Additions	704	-	-	2	-	-	-	706
As at 31 August 2019	6,143	10,568	1,492	71	282	338	1,586	20,480
Accumulated amortisation and impairment								
As at 31 August 2017	-	1,261	-	21	139	6	-	1,427
Amortisation expense	201	1,366	-	6	59	26	-	1,658
As at 31 August 2018	201	2,627	-	27	198	32	-	3,085
Amortisation expense	501	1,334	-	8	58	26	63	1,990
As at 31 August 2019	702	3,961	-	35	256	58	63	5,075
Net book value								
As at 31 August 2018	5,238	7,941	1,492	42	84	306	-	15,103
As at 31 August 2019	5,441	6,607	1,492	36	26	280	1,523	15,405

Assets

Intangible assets comprise:

- Conveyor and palletiser technology used in the materials handling industry purchased through the acquisition of the Alvey business in April 2018 is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of ten years.
- Bladestop bandsaw safety technology purchased in October 2017 which is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of eight years.
- Domain names (URLs) and a non-compete arrangement resulting from the purchase of the RobotWorx business in May 2014.
- Intangible assets associated with the RobotWorx non-compete arrangement are being amortised on a straight line basis over a fifteen year period, while intangible assets related to the URLs are indefinite life intangibles as the rights to the URLs are held indefinitely and are assessed for impairment annually.
- Intellectual property associated with current leads and flux pumps which were largely acquired on the purchase of HTS-110 Limited and are being amortised over an estimated remaining useful life at the time of purchase of eight years.
- Centrifuge technology used in the honey and fish oil industry purchased through the acquisition of the other joint venture partners' interests in Scott Separation Technology Limited in May 2017 and is being amortised on a straight line basis over an estimated remaining useful life at the time of purchase of thirteen years.
- Automated grading technology used in the meat industry purchased through the acquisition of Normaclass in May 2019 and is being amortised on a straight line basis over an estimated useful life at the time of purchase of ten years.

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

B7. RESEARCH & DEVELOPMENT COSTS

Policy

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

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

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

B8. COMMITMENTS FOR EXPENDITURE

	2019 $'000s	2018 $'000s
Commitments for future capital expenditure for purchase of property, plant and equipment	-	4,045

In June 2017 Scott Technology Limited announced plans to extend the building and associated facilities at 630 Kaikorai Valley Road, Dunedin, New Zealand with the expectation that it would nearly double the available floor space. As at 31 August 2019 a handover of the building extension from the contractor to the company had occurred. Formal completion is expected by 31 October 2019.

SECTION C – CAPITAL & FUNDING

C1. SHARE CAPITAL

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

	2019 Number	2018 Number	2019 $'000s	2018 $'000s
Fully paid ordinary shares at beginning of financial year	75,902,939	74,680,754	75,647	71,312
Issue of shares under dividend reinvestment plan	1,641,813	1,222,185	4,426	4,335
Balance at end of financial year	77,544,752	75,902,939	80,073	75,647

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

	2019 Cents Per Share	2018 Cents Per Share
Earnings per share from continuing operations		
Basic	11.3	14.3
Diluted	11.3	14.3

	2019 $'000s	2018 $'000s
Net surplus for the year used in the calculation of basic and diluted earnings per share from continuing operations	8,690	10,768
Ordinary shares at year end used in the calculation of net tangible assets per ordinary share (Note C1)	77,545	75,903

Non-GAAP information

	2019 Cents Per Share	2018 Cents Per Share
Net tangible assets per ordinary share	50.4	47.0

	2019 $'000s	2018 $'000s
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share from continuing operations	76,801	75,394
Net tangible assets (net assets excluding goodwill, intangible assets and deferred tax)	39,087	35,702

C3. BORROWINGS

Policy *Borrowings are recorded initially at fair value, net of transaction costs.*

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the profit or loss over the period of the borrowings using the effective interest rate method.

Lender	Local Currency	Limit 2019 NZD$'000s	Limit 2018 NZD$'000s	Utilised 2019 NZD$'000s	Utilised 2018 NZD$'000s	Interest Rate 2019 %	Interest Rate 2018 %
Working Capital Facilities							
ANZ Bank New Zealand Ltd	NZD	13,000	5,000	10,878	-	5.58%	5.98%
BB&T Bank (USA)	USD	794	752	-	582	6.00%	6.00%
		13,794	5,752	10,878	582		
Loan Facilities							
ANZ Bank New Zealand Ltd	USD	3,176	3,524	3,176	3,524	4.97%	4.82%
Equal monthly principal repayments of US$28,571 over a five year period, followed by a lump sum payment of US$714,286 in May 2023.							
ANZ Bank New Zealand Ltd	NZD	4,900	-	4,900	-	3.60%	-
Equal monthly principal repayments of NZD$19,987 over a three year period, followed by a lump sum payment of NZD$4,280,450 in March 2022.							
KBC Bank (Belgium)	EUR	2,632	878	2,632	878	2.20%	2.20%
Working capital loan, maturing monthly.							
KBC Bank (Belgium)	EUR	562	483	515	483	1.75%	1.75%
Working capital (vacation pay) loan, repayable in equal instalments over one year with a final repayment in July 2020.							
KBC Bank (Belgium)	EUR	526	241	177	241	1.75%	0.75%
Working capital (prepaid tax) loan, repayable in equal instalments over one year with a final repayment in July 2020.							
Ceskoslovenska obchodni banka a.s. (Czech Republic)	CZK	-	682	-	43	-	4.95%
Working capital loan, maturing monthly. Not renewed during 2019.							
Participatiemaatschappij Vlaanderen (PMV) (Belgium)	EUR	-	1,713	-	1,713	-	8.00%
Subordinated business development loan taken over on the acquisition of the Alvey business. Repaid in 2019							
Maarten van Leeuwen	EUR	-	527	-	527	-	8.00%
Subordinated loan from the previous owner of the Alvey business. Repaid in 2019.							
Vehicle Financing (Belgium)	EUR	123	-	17	-	1.57%	-
Financing facilities for the purchase of vehicles.							
Vehicle Financing (Czech Republic)	CZK	751	-	250	-	3.93%	-
Financing facilities for the purchase of plant and vehicles in Czech Republic.							
		12,670	8,048	11,667	7,409		

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

	2019 $'000s	2018 $'000s
Current liability	4,217	3,321
Non current liability	7,450	4,088
	11,667	7,409

C3. BORROWINGS (Cont.)

		Limit		Utilised	
		2019	2018	2019	2018
Lender	**Currency**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Financial Guarantee & Trade Performance Bonds					
ANZ Bank New Zealand Ltd	Varies	20,400	20,400	9,762	7,938
KBC Bank (Belgium)	EUR	8,773	8,775	4,608	4,569
(Refer note F2, Contingent Liabilities)		29,173	29,175	14,370	12,507
Credit Card Facilities					
ANZ Bank New Zealand Ltd	NZD	750	750	112	101
Australia and New Zealand Banking Group Ltd	AUD	320	328	204	173
PNC Bank (USA)	USD	476	301	179	97
Lowes (USA)	USD	8	-	8	-
KBC Bank (Belgium)	EUR	9	28	9	1
		1,563	1,407	512	372

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

Security

The bank facilities from ANZ Bank New Zealand Limited are secured by general security agreements over all the present and after acquired property of Scott Technology Limited and certain subsidiaries, and therefore associated 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 properties at 630 Kaikorai Valley Road, Dunedin, 10 Maces Road, Christchurch and 1B Quadrant Drive, Lower Hutt.

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

C4. TRADE CREDITORS & ACCRUALS

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

	2019	2018
	$'000s	**$'000s**
Trade creditors	22,420	18,453
Accruals	8,637	11,869
	31,057	30,322

Terms

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

C5. LEASES

Policy *The Group assess whether a contract is or contains a lease, at the inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases, defined as leases with a lease term of 12 months or less, and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If the rate cannot be readily determined, the Group uses its incremental borrowing rate (IBR). The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the liability, using the effective interest method, and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term or useful life of the underlying asset. The Group applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Intangible assets policy in note B6.

Judgement *The estimation of the IBR relies on the Directors considering the credit risk of the Group. If the credit risk faced by the Group differs from what is estimated, the IBR may differ, and consequently the future net present value of the lease cash flows may be over or understated.*

The determination of lease term relies on the Directors view of the likelihood of any lease renewal options being renewed. If the lease renewal options included and then not taken up, or are not included and are taken up, the net present value of the lease cash flows may be over or understated.

The Group leases several assets including buildings, cars and machinery. The average lease term is 3.7 years.

The Group has options to purchase certain equipment at the conclusion of their current lease term. As management is undecided on the outcome of these transactions, the purchase price has not been included in the lease liability calculations.

Right-of-use assets

	Buildings $'000s	Plant $'000s	Vehicles $'000s	Group $'000s
Cost				
Balance 31 August 2018	-	-	-	-
Recognised on change of accounting policy	11,465	509	2,747	14,721
Additions	5,156	24	929	6,109
As at 31 August 2019	16,621	533	3,676	20,830
Depreciation				
Balance 31 August 2018	-	-	-	-
Depreciation expense	2,469	240	1,125	3,834
As at 31 August 2019	2,469	240	1,125	3,834
As at 31 August 2018	-	-	-	-
As at 31 August 2019	14,152	293	2,551	16,996

C5. LEASES (Cont.)

Amounts recognised in profit and loss and cashflow statement

	2019 $'000s
Total cash outflow for leases	3,993
Interest expense on lease liabilities	518
Expense relating to short-term leases	959
Expense relating to low value assets	-

As at 31 August 2019, the Group is committed to $1 million for short-term leases.

Lease liabilities

	2019 $'000s	**2018(i) $'000s**
Current liability	4,081	187
Non-current liability	13,311	159
	17,392	346

(i) The 2018 amount disclosed represents the finance lease liabilities as at 31 August 2018 under NZ IAS 17.

Maturity analysis

	2019 $'000s	**2018(i) $'000s**
Not later than 1 year	4,081	3,535
Later than 1 year and not later than 5 years	9,636	5,944
Later than 5 years	3,675	2,405
	17,392	11,884

(i) The 2018 amount disclosed relates to the non-cancellable operating and finance payments under NZ IAS 17 in 2018.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

Transition to NZ IFRS 16

The Group has early adopted NZ IFRS 16 on 1 September 2018 using the modified retrospective method and as such have not restated comparatives. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's weighted average incremental borrowing rate (IBR). The weighted average IBR applied to lease liabilities recognised is 4.42%. The IBR's have been calculated by using inputs such as interest yield curves (Intercontinental Exchange SWAP Rate curve) adjusted for currency and tenor for the jurisdiction the leases are included in, lease specific adjustments and credit risk. This curve has been used to align the Group with the ultimate parent company's lease calculation.

Management has reviewed applicable leases for renewal options and any options have been assessed on a case by case basis on the likelihood of being renewed.

Right-of-use assets at the date of initial application for leases previously classified as operating leases have been calculated as an amount equal to the lease liability, plus any prepaid lease payments or less accrued lease payments.

C5. LEASES (Cont.)

Other practical expedients applied by the Group in measuring the lease liabilities and right-of-use assets at transition are the following:

- The Group excluded initial direct costs for any existing leases;
- The Group excluded leases with a term that ended during the period;
- The Group has applied a single discount rate to leases in similar jurisdictions and with similar lease terms.

The reconciliation between the operating lease commitments disclosed under NZ IAS 17 in the period immediately preceding the date of application and the lease liability at transition date is as follows:

Operating lease commitments disclosed as at 31 August 2018	11,884
Less: short-term leases recognised on straight-line basis	(959)
Less: low value leases recognised on a straight-line basis	-
Add: adjustments as a result of renewal options	3,991
Add: finance lease liabilities recognised as at 31 August 2018	346
Impact of discounting using the weighted incremental borrowing rate	(541)
Lease liabilities as at 1 September 2018	14,721

For leases that were classified as finance leases under NZ IAS 17 in the period immediately preceding the date of application, the carrying amount of the right-to-use asset and the lease liability at the date of initial application shall be equal to the carrying amount of the lease asset and lease liability immediately before the date measured using NZ IAS 17.

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 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.

C6. DERIVATIVES (Cont.)

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.

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 transferred from equity and included in the initial measurement of the cost of the asset or liability.

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.

Assets	**2019 $'000s**	**2018 $'000s**
At fair value:		
Foreign currency forward contracts held as effective fair value hedges	-	-
Fair value hedge of open firm commitments	1,216	1,579
Foreign exchange derivatives	-	-
	1,216	1,579
Represented by:		
Current financial assets	1,207	1,229
Non current financial assets	9	350
	1,216	1,579

Liabilities		
At fair value:		
Foreign currency forward contracts held as effective fair value hedges	1,216	1,579
Foreign exchange derivatives	1,334	271
Foreign currency forward contacts held as cash flow hedges	-	513
Interest rate swap contracts	960	614
Fair value hedge of open firm commitments	-	-
	3,510	2,977
Represented by:		
Current financial liabilities	2,541	2,013
Non current financial liabilities	969	964
	3,510	2,977

C7. CASH FLOW HEDGE RESERVE

Policy *See cash flow hedge policy in note C6.*

	Foreign exchange risk	
	2019	**2018**
	$'000s	**$'000s**
Balance at 1 September	370	-
Gain/(loss) arising on changes in fair value of hedged instruments during the period	-	370
(Gain)/loss reclassified to profit or loss – hedged item has affected profit or loss	(370)	-
(Gain)/loss reclassified to profit or loss – forecast transaction no longer expected to occur	-	-
Balance at 31 August	-	370

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

C8. EMPLOYEE BENEFITS

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

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

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

C9. 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.*

	2019 $'000s	2018 $'000s
Balance at beginning of financial year	1,857	1,300
Provisions recognised on acquisition of business	-	460
Additional provisions (derecognised) / recognised	(311)	874
Reductions arising from payments	-	(777)
Balance at end of financial year	1,546	1,857

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.

C10. 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 $0.2 million (2018: $2.3 million) included in employee entitlements in the balance sheet. The impact of the movement in the liability on profit for the year was a $0.2 million increase (2018: $0.9 million decrease) and is included in the employee benefits expenses. No shares or share options in Scott Technology Limited are issued under the plan.

SECTION D – RISK MANAGEMENT

D1. FINANCIAL INSTRUMENTS

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

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 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 are 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 2018.

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.

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. There are no open cash flow hedges at balance date. 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	
	2019 $'000s	2018 $'000s	2019 $'000s	2018 $'000s
United States Dollar	20,957	20,073	12,073	10,795
Euros	23,722	16,077	25,197	16,198
Australian Dollar	7,523	5,908	8,178	1,491
Japanese Yen	-	6	-	-
Great Britain Pound	271	168	103	30
Chinese Yuan	2,609	3,930	1,472	2,103
Canadian Dollar	489	-	-	-
Czech Koruna	137	544	6,622	1,141
	55,708	46,706	53,645	31,758

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. These are presented in other financial assets or other financial liabilities in the balance sheet.

For hedges of firm commitments, as the critical terms (i.e. the notional amount, life and underlying) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates.

The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the forward contracts, which is not reflected in the fair value of the hedged item attributable to changes in foreign exchange rates. No other sources of ineffectiveness emerged from these hedging relationships

From time to time the Group will enter into collar options to cover forecast sales and purchases. These are not hedge accounted.

D1. FINANCIAL INSTRUMENTS (Cont.)

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

	Average Exchange Rate		Foreign Currency		NZD Contract Value		Change in fair value for recognising hedge ineffectiveness		Fair Value	
	2019	2018	2019 FC'000s	2018 FC'000s	2019 $'000s	2018 $'000s	2019 $'000s	2018 $'000s	2019 $'000s	2018 $'000s
Foreign currency forward contracts held as effective fair value hedges										
Sell United States Dollars										
Less than 3 months	0.6943	0.6929	3,784	1,315	5,450	1,898	-	-	(555)	(80)
3 to 6 months	0.6857	0.6951	1,186	6,084	1,730	8,753	-	-	(148)	(392)
6 to 12 months	0.6924	0.7003	2,871	10,217	4,146	14,590	-	-	(387)	(725)
1 to 2 years	0.6727	0.7010	99	5,275	147	7,525	-	-	(9)	(350)
			7,940	22,891	11,473	32,766	-	-	(1,099)	(1,547)
Sell Canadian Dollars										
0 to 3 months	0.8810	-	550	-	624	-	-	-	(32)	-
6 to 12 months	0.8813	-	275	-	312	-	-	-	(15)	-
			825	-	936	-	-	-	(47)	-
Sell Euros										
3 to 6 months	-	0.5789	-	56	-	97	-	-	-	(3)
Buy Japanese Yen										
3 to 6 months	75.13	-	6,806	-	91	-	-	-	11	-
Sell Australian Dollars										
Less than 3 months	0.9243	0.9343	1,523	656	1,616	702	-	-	(8)	(14)
3 to 6 months	0.9487	0.9333	5,004	525	5,275	562	-	-	(62)	(10)
6 to 12 months	0.9474	0.9333	1,035	263	1,092	282	-	-	(11)	(5)
			7,562	1,444	7,983	1,546	-	-	(81)	(29)
					20,483	34,409	-	-	(1,216)	(1,579)
Foreign currency forward contracts held as cash flow hedges										
Sell United States Dollars										
Less than 3 months	-	0.6919	-	3,000	-	4,336	-	-	-	(177)
3 to 6 months	-	0.6888	-	3,000	-	4,356	-	-	-	(154)
6 to 12 months	-	0.6901	-	5,165	-	7,485	-	-	-	(264)
			-	11,165	-	16,177	-	-	-	(595)
Sell Australian Dollars										
Less than 3 months	-	0.8994	-	2,250	-	2,502	-	-	-	46
3 to 6 months	-	0.8994	-	1,750	-	1,946	-	-	-	36
			-	4,000	-	4,448	-	-	-	82
					-	20,625	-	-	-	(513)

D1. FINANCIAL INSTRUMENTS (Cont.)

	Average Exchange Rate		Foreign Currency		NZD Contract Value		Change in fair value for recognising hedge ineffectiveness		Fair Value	
	2019	2018	2019 FC'000s	2018 FC'000s	2019 $'000s	2018 $'000s	2019 $'000s	2018 $'000s	2019 $'000s	2018 $'000s
Foreign exchange derivatives										
Sell United States Dollars										
Less than 3 months	0.6812	0.6963	5,534	1,540	8,124	2,212	-	-	(654)	(105)
3 to 6 months	-	0.7202	-	1,675	-	2,326	-	-	-	(192)
			5,534	3,215	8,124	4,538	-	-	(654)	(297)
Sell Euros										
Less than 3 months	0.5959	0.5808	6,930	92	11,629	158	-	-	(521)	(4)
3 to 6 months	-	0.5662	-	6,930	-	12,239	-	-	-	(106)
			6,930	7,022	11,629	12,397	-	-	(521)	(110)
Buy Euros										
Less than 3 months	0.5692	0.5840	6,930	2,793	12,175	4,783	-	-	(24)	136
Sell Canadian Dollars										
Less than 3 months	0.8813	-	460	-	522	-	-	-	(27)	-
Sell Australian Dollars										
Less than 3 months	0.9230	-	1,026	-	1,112	-	-	-	18	-
					33,562	21,718	-	-	(1,208)	(271)
Foreign exchange collar option derivatives										
Group has the right (but not the obligation) above the rate to:										
Sell United States Dollars										
Less than 3 months	0.6500	-	3,000	-	4,615	-	-	-	19	-
Sell United States Dollars										
Less than 3 months	0.6315	-	6,000	-	9,501	-	-	-	(145)	-
					14,116	-	-	-	(126)	-

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

Interest Rate Swap Contracts

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

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

Outstanding receive floating pay fixed contracts

	Average Contracted Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2019	2018	2019	2018	2019	2018
	%	%	$'000s	$'000s	$'000s	$'000s
5 years +	2.7%	2.7%	3,263	3,376	(960)	(614)

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D1. FINANCIAL INSTRUMENTS (Cont.)

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

Foreign Currency Sensitivity Analysis

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

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

	10% Increase in New Zealand Dollar		10% Decrease in New Zealand Dollar	
	2019 $'000s	2018 $'000s	2019 $'000s	2018 $'000s
United States Dollar	(76)	(474)	76	474
Euro	147	(450)	(147)	450
Australian Dollar	177	(442)	(177)	442
Japanese Yen	-	(1)	-	1
Great Britain Pound	(17)	(14)	17	14
Chinese Yuan	(114)	(182)	114	182
Canadian Dollar	3	-	(3)	-
Czech Koruna	648	60	(648)	(60)

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

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

Credit Risk Management

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

At year end the amount receivable from the five largest trade debtors is $10.1 million (2018: $7.9 million).

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

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

D1. FINANCIAL INSTRUMENTS (Cont.)

Impairment of Financial Assets

In relation to the impairment of financial assets, NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39.The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is now no longer necessary for a credit event to have occurred before credit losses are recognised.

The calculation of impairment losses impacts the way the Group calculates the bad debts provision, now termed the allowance for expected credit loss. The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade debtors.

To measure the expected credit losses, trade debtors, other financial assets, sundry debtors and contract assets have been grouped based on their shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade debtors for the same type of contracts.

A provision matrix is determined based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customers' future credit risk. In addition the company has increased the credit loss allowance for anticipated losses from specific customers. On that basis, the credit loss allowance as at 31 August was determined as follows;

Provision matrix

	Australasia $'000s	Americas $'000s	Asia & Europe $'000s	Group $'000s
Debtors				
Current-30 days	15,730	4,592	9,078	29,400
31-60 days	1,481	820	3,418	5,719
61-90 days	1,484	193	129	1,806
Over 91 days	2,304	137	1,121	3,562
Total debtors	20,999	5,742	13,746	40,487
Contract assets	20,777	535	11,551	32,863
Total assets	41,879	6,174	25,297	73,350
Allowance based on expected credit loss	-	-	-	-
Expected credit loss on individually assessed balances(1)	(1,393)	(40)	(61)	(1,494)
Credit loss allowance	(1,393)	(40)	(61)	(1,494)

(1) Adjustment to reflect the higher credit risk and probability of default relating to customers individually assessed by management.

Trade debtors and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has applied the transition provision to not restate comparatives as the credit loss allowance under NZ IFRS 9 did not result in a material change to the amounts previously reported.

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.

	Weighted Average Effective Interest Rate %	On Demand $'000s	Less than 1 Year $'000s	1-2 Years $'000s	2-3 Years $'000s	3-5 Years $'000s	5+ Years $'000s	Total $'000s
2019								
Financial Liabilities								
Lease liabilities	4.22%	-	4,253	3,840	2,612	3,590	3,830	18,125
Term loans	3.55%	-	4,367	874	5,192	1,218	471	12,122
Deferred settlement on purchase of business	-	-	2,385	-	-	-	-	2,385
Payable to joint ventures	-	-	393	-	-	-	-	393
Trade creditors & accruals	-	31,057	-	-	-	-	-	31,057
		31,057	11,398	4,714	7,804	4,808	4,301	64,082
2018								
Financial Liabilities								
Finance lease liabilities	3.89%	-	197	97	44	23	2	363
Term loans	5.14%	591	3,000	1,798	624	2,113	-	8,126
Deferred settlement on purchase of business	-	-	6,275	-	-	-	-	6,275
Payable to joint ventures	-	-	673	-	-	-	-	673
Trade creditors & accruals	-	30,322	-	-	-	-	-	30,322
		30,913	10,145	1,895	668	2,136	2	45,759

The Group has access to financing facilities, of which the total unused amount is $3.9 million at the balance sheet date, (2018: $23.3 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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
2019				
Financial assets at fair value through profit and loss				
Fair value hedge of open firm commitments	-	1,216	-	1,216
Financial liabilities at fair value through profit and loss				
Foreign currency forward contracts held as effective fair value hedges	-	(1,216)	-	(1,216)
Foreign exchange derivatives	-	(1,334)	-	(1,334)
Foreign currency forward contracts held as cash flow hedges	-	-	-	-
Interest rate swap contracts	-	(960)	-	(960)
	-	(2,294)	-	(2,294)
2018				
Financial assets at fair value through profit and loss				
Fair value hedge of open firm commitments	-	1,579	-	1,579
Financial liabilities at fair value through profit and loss				
Foreign currency forward contracts held as effective fair value hedges	-	(1,579)	-	(1,579)
Foreign exchange derivatives	-	(271)	-	(271)
Foreign currency forward contracts held as cash flow hedges	-	(513)	-	(513)
Interest rate swap contracts	-	(614)	-	(614)
	-	(1,398)	-	(1,398)

Fair Value

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

SECTION E – GROUP STRUCTURE & SUBSIDIARIES

E1. ACQUISITION OF BUSINESS

Business Acquired

Name	Principal Activity	Location	Date of Acquisition	Proportion of Shares / Assets Acquired	Cost of Acquisition $'000s
Normaclass	Automated grading technology	Europe	30 May 2019	100%	2,940

The Normaclass acquisition was by way of the purchase of the shares in the business. The business was acquired for the purpose of expanding the Group's operations in key geographies and to expand and enhance the solutions that the Group can offer to its customers.

Analysis of Assets & Liabilities Acquired and Provisional Fair Values

	Normaclass		
	Book Value $'000s	Fair Value Adjustment $'000s	Fair Value On Acquisition $'000s
Assets & Liabilities			
Cash & bank balances	27	-	27
Trade & other receivables	1,197	-	1,197
Inventories	98	-	98
Plant & equipment	2	-	2
Intangible assets	151	1,435	1,586
ROU Asset	114		114
Trade creditors & accruals	(121)	-	(121)
Lease Liability	(114)		(114)
Taxation payable	(35)	-	(35)
Employee entitlements	(128)	-	(128)
Deferred Tax	-	(444)	(444)
Total assets & liabilities	1,191	991	2,182
Goodwill on acquisition			758
Cost of acquisition			2,940

Cost of Acquisition

The cost of acquisition of Normaclass was paid in a combination of cash and a deferred settlement.

	Total $'000s
Cash	2,082
Deferred settlement on purchase of business	858
Net cash outflow on acquisition	2,940

The deferred settlement on the Normaclass business is a profit share agreement for a project being completed in Uruguay. The fair values on acquisition are based on the expectation that all post-acquisition conditions and targets will be met.

E1. ACQUISITION OF BUSINESS (Cont.)

Deferred consideration balances have moved by the below in the current period

	2019 $'000s	2018 $'000s
Balance at beginning of financial year	6,275	-
Deferred consideration on purchase of business	858	6,275
Payment of deferred consideration	(4,748)	-
Balance at end of financial year	2,385	6,275

Made up of:

	2019 $'000s	2018 $'000s
Alvey	-	4,748
Transbotics	1,527	1,527
Normaclass	858	-
Total	2,385	6,275

Net Cash Outflow on Acquisition

The Normaclass acquisition was paid for by cash reserves of the Group. The net cash outflow on acquisition for the Group is shown in the table below.

	Total $'000s
Total purchase consideration paid in cash	2,082
Overdraft/(cash at bank) acquired	(27)
Cost of acquistion	2,055

Impact of Acquisition on the Results of the Group

Given that Normaclass is a small company that was only held for three months by the Group, disclosure has not been made of the full year revenue or profit as if the acquisition had been effected at 1 September 2018 as doing so would not be a fair representation of the performance of the combined Group on an annualised basis.

Goodwill Arising on Acquisition

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

2018 Acquisitions

As disclosed in the 2018 financial statements, certain assets and liabilities acquired in the purchase of Alvey and Transbotics were recorded on a provisional basis, due to timing of the acquisitions relative to balance date. The assessment of the fair value on acquisition for these entities has been completed during the year and there have been no changes to the fair values as reported in the 2018 financial statements.

SCOTT TECHNOLOGY LIMITED
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended 31 August 2019

E2. SUBSIDIARIES

Name of Entity	Balance Date	Country of Incorporation	Ownership Interest & Voting Rights 2019 %	2018 %
Parent Entity				
Scott Technology Limited (i)	31 August	New Zealand	n/a	n/a
New Zealand Trading Subsidiaries				
Scott Technology NZ Limited (ii)	31 August	New Zealand	100	100
Scott Automation Limited (iii)	31 August	New Zealand	100	100
Scott Technology USA Limited (iv)	31 August	New Zealand	100	100
QMT General Partner Limited (v)	31 August	New Zealand	93	93
QMT New Zealand Limited Partnership (vi)	31 August	New Zealand	92	92
Scott Separation Technology (vii)	31 August(**)	New Zealand	-	100
Scott Technology Americas Limited (viii)	31 August	New Zealand	100	100
Scott Technology Europe Limited (ix)	31 August	New Zealand	100	100
New Zealand Non Trading Subsidiaries				
Scott LED Limited	31 August	New Zealand	100	100
Rocklabs Limited	31 August	New Zealand	100	100
Overseas Subsidiaries				
Scott Technology Australia Pty Ltd (x)	31 August	Australia	100	100
Applied Sorting Technologies Pty Ltd (xi)	31 August	Australia	100	100
Scott Automation & Robotics Pty Ltd (xii)	31 August	Australia	100	100
QMT Machinery Technology (Qingdao) Co Limited (xiii)	31 December (*)	China	-	70
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 August	Germany	100	100
Scott Technology Belgium bvba (xvii)	31 August	Belgium	100	100
Scott Automation NV (xviii)	31 August	Belgium	100	100
FLS Group bvba (xix)	31 March	Belgium	100	100
FLS Systems NV (xx)	31 March	Belgium	100	100
Alvey do Brazil Comercio de Maquinas de Automacao (xxi)	31 December (*)	Brazil	100	100
Scott Automation a.s. (xxii)	31 August	Czech Republic	100	100
Scott Automation SAS (xxiii)	31 August	France	100	100
Scott Automation Limited (xxiv)	31 August	United Kingdom	100	100
Normaclass (xxv)	31 August	France	100	-
Rivercan S.A. (xxvi)	31 December (*)	Uruguay	100	-

(*) Determined by local regulatory requirements.
(**) Amalgamated into Scott Technology Limited on 31 March 2019.

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E2. SUBSIDIARIES (Cont.)

New Zealand Trading Subsidiaries

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

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

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

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

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

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

(vii) Scott Separation Technology Limited develops and markets patented centrifuge technology with particular application to the honey and fish processing industries. This company was amalgamated into Scott Technology Limited on 31 March 2019.

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

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

Overseas Subsidiaries

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

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

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

(xiii) QMT Machinery Technology (Qingdao) Co Limited is a general engineering business located in Qingdao, China. The woodworking lathes and parts business has ceased and the automation engineering business has been transferred to Scott Systems (Qingdao) Co Limited. The company was liquidated in 2019.

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

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

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

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

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

(xix) FLS Group bvba is a holding company for FL Systems and is located in Deerlijk, Belgium.

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

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

(xxii) Scott Automation a.s., formally Alvey Manex a.s., is a production and assembly business located in Podivin, Czech Republic.

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

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

(xxv) Normaclass designs automated grading systems and is based in Ploemeur, France.

(xxvi) Rivercan S.A's main activity is to support the roll out of automated grading systems in South America and is based in Montevideo, Uruguay.

E3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Interests in Joint Ventures

Policy: *A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.*

The results, 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 2019 %	Ownership Interest 2018 %	Carrying Value 2019 $'000s	Carrying Value 2018 $'000s
Joint Ventures					
Robotic Technologies Limited (i)	New Zealand	50	50	335	552
Scott Technology Euro Limited (ii)	Ireland	50	50	135	80
NS Innovations Pty Limited (iii)	Australia	50	50	-	-
Scott Technology S.A. (iv)	Chile	50	50	71	7
Rocklabs Automation Canada Limited (v)	Canada	50	50	830	289
Balance at end of financial year				1,371	928

(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 deficit was $217,000 (2018: share of net surplus $268,000) and RTL paid a dividend to Scott Technology Limited of $Nil (2018: $700,000).

(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 $55,000 (2018: $2,000).

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

Interests in Joint Ventures (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 surplus was $Nil (2018: $Nil).

(iv) Scott Technology S.A. (STSA) is a joint venture between Scott Technology Limited and Canadian private company STG Holdings Limited. STSA commenced trading in June 2014 and has a balance date of 31 August. STSA is a sales agency for mining equipment in the Americas and is based in Chile. Scott Technology Limited's share of STSA's net surplus was $65,000 (2018: share of net deficit $42,000).

(v) Rocklabs Automation Canada Limited (RAC) is a joint venture between Scott Technology Limited and Canadian private company STG Holdings Limited. RAC commenced trading in 2013 and has a balance date of 31 August. RAC is a sales agency for mining equipment in North America. Scott Technology Limited's share of RAC's net surplus was $541,000 (2018: $282,000).

Carrying value of equity accounted investments:

	2019 $'000s	2018 $'000s
Balance at beginning of financial year	928	1,118
Share of net surplus	444	510
Share of dividends	-	(700)
Sale of interest in joint venture	-	-
Balance at end of financial year	1,371	928

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

	Joint Ventures 2019 $'000s	 2018 $'000s
Income	6,576	16,945
Expenses	(5,688)	(15,925)
Net surplus and total comprehensive income	888	1,020
Group share of net surplus	444	510

Summarised balance sheets of joint ventures:

	Joint Ventures 2019 $'000s	 2018 $'000s
Current assets	4,474	3,851
Non-current assets	982	1,964
Current liabilities	(1,775)	(1,601)
Non-current liabilities	(1,127)	(2,316)
Net assets	2,554	1,898
Group share of net assets	1,277	949

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

E4. RELATED PARTY TRANSACTIONS

Joint Ventures	2019 $'000s	2018 $'000s
Project work undertaken by the Group for RTL	942	6,092
Administration, sales and marketing fees charged by the Group to RTL	164	234
Sales revenue received by RTL from the Group	982	13,616
Advance from RTL to Scott Technology	(344)	(585)
Interest charged by RTL to Scott Technology on advance	105	96
Administration fees charged by the Group to STEL	6	6
Commission received by STEL from the Group	211	211
Advance from STEL to Scott Technology	(49)	(88)
Project work undertaken by the Group for SSTL	-	-
Project work undertaken by the Group for STSA	571	406
Advance from Scott Technology to STSA	1,129	1,298
Project work undertaken by the Group for RAC	1,715	2,459
Advance from Scott Technology to RAC	423	1,017

Advances

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

Directors

C C Hopkins and S J McLauchlan are trustees of the Scott Technology Employee Share Purchase Scheme. The balance of the interest free advance owing to the scheme at 31 August 2019 was $7,110 (2018: $3,000). During the year no shares vested with employees and no shares (2018: no shares) which had not vested with employees were disposed of at market value. As at 31 August 2019 17,779 (2018: 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 received Directors' fees of $21,500 from Oakwood Group Limited during the year (2018: $21,000).

JBS Australia Pty Limited owns a 51.5% shareholding in Scott Technology Limited. The Group has recognised sales to JBS Companies of $6.2 million (2018: $5.6 million) and has made purchases from JBS Companies of nil (2018: $1.8 million). As at balance date the Group had $0.5 million receivable from JBS Companies (2018: $0.8 million).

SECTION F – OTHER DISCLOSURES

F1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

Definition of terms used in the Statement of Cash Flows:

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

	2019 $'000s	2018 $'000s (restated)
Net surplus for the year	8,604	10,772
Adjustments for non-cash items:		
Depreciation and amortisation	8,969	4,225
Net loss/(gain) on sale of property, plant and equipment	(237)	21
Deferred tax	(1,456)	1,541
Share of net surplus of joint ventures and associates	(444)	(510)
Movement due to IFRS 15 adjustment	(450)	-
Add / (less) movement in working capital:		
Trade debtors	(1,929)	(19,231)
Other financial assets – derivatives	363	(1,435)
Sundry debtors	327	(2,576)
Inventories	265	(6,553)
Contract work in progress	(13,257)	1,031
Taxation payable	(2,520)	(953)
Trade creditors and accruals	734	13,732
Other financial liabilities – derivatives	1,046	2,463
Employee entitlements	(1,692)	6,089
Provision for warranty	(311)	557
Interest paid	1,715	403
Movements in working capital disclosed in investing/financing activities:		
Working capital relating to purchase of business and non controlling interest	1,011	(7,109)
Movement in foreign exchange translation reserve relating to working capital	(12)	(1,449)
Net cash (outflow)/inflow from operating activities	726	1,018

Reconciliation of Movement in Debt Facilities

	1 September 2018 $'000s	Change in accounting policy $'000s	Additions $'000s	Net Drawings $'000s	Net Repayment $'000s	31 August 2019 $'000s
Bank loans	7,409	-	-	5,000	(742)	11,667
Lease liabilities	346	14,375	6,263	-	(3,592)	17,392
	7,755	14,375	6,263	5,000	(4,334)	29,059

SECTION F – OTHER DISCLOSURES

F1. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Cont.)

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

F2. CONTINGENT LIABILITIES

	2019 $'000s	2018 $'000s
Payment guarantees and performance bonds	14,339	12,432
Stock Exchange bond	75	75
Maximum contract penalty clause exposure	6,865	6,979

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:

	2019 $'000s	2018 $'000s
Short term benefits - employees	863	2,156
Short term benefits – executive Director	404	607
Short term benefits – non-executive Directors	227	208
Long term benefits – employees	(80)	494
Long term benefits – executive Director	(76)	268
	1,338	3,733

F4. SUBSEQUENT EVENTS

Dividend

On 24 October 2019 the Board of Directors approved a partially imputed final dividend of four cents per share to be paid for the 2019 year (2018: six cents per share).

SCOTT TECHNOLOGY LIMITED
ADDITIONAL STOCK EXCHANGE INFORMATION
For the Year Ended 31 August 2019

Substantial Shareholders

Names of Substantial Security Holder	Number of shares in which a relevant interest was held as at 16 September 2019
1. JBS Australia Pty Limited	38,476,592
2. Oakwood Securities Limited	5,500,000

The total number of issued voting securities of the company as at 16 September 2019 was 77,544,752 ordinary shares.

Distribution of Shares by Holding Size	# of Shareholders	% of Total	Number	% of Total
1 - 1,000	796	28	405,481	0.52
1,001 - 5,000	1,144	41	2,929,644	3.78
5,001 - 10,000	408	15	2,978,816	3.84
10,001 - 50,000	383	14	7,623,248	9.83
50,001 - 100,000	34	1	2,310,805	2.98
100,001 and over	34	1	61,296,758	79.05
Total and percentage	2,799	100.00	77,544,752	100.00

Twenty Largest Shareholders as at 16 September 2019	Shares	% of Total
1. JBS Australia Pty Limited	39,912,982	51.47
2. Oakwood Securities Limited	5,500,000	7.09
3. New Zealand Central Securities Depository Limited	3,760,480	4.85
4. Russell John Field & Anthony James Palmer (JI Urquart Family A/C)	2,000,000	2.58
5. JB Were (NZ) Nominees Limited	1,689,219	2.18
6. Leveraged Equities Finance Limited	1,330,267	1.72
7. Forsyth Barr Custodians Limited (1-33 A/C)	1,207,809	1.56
8. Jack William Allan & Helen Lynette Allan	490,000	0.63
9. Jarden Custodians Limited	479,982	0.62
10. Forsyth Barr Custodians Limited	414,890	0.54
11. Rosebery Holdings Limited	398,360	0.51
12. Kenneth William Wigley	385,709	0.50
13. FNZ Custodians Limited	302,585	0.39
14. Michael Walter Daniel, Nigel Geoffrey Burton and Michael Murray Benjamin	300,000	0.39
15. Custodial Services Limited (4 A/C)	291,472	0.38
16. Margaret Ann Ring & Melissa A Henderson	270,000	0.35
17. Robert Wong & Cristein Joe Wong	226,310	0.29
18. Custodial Services Limited (3 A/C)	221,902	0.29
19. James Ferguson Ring	215,000	0.28
20. Harry McMillan Hearsay Salmon	200,000	0.26
	59,596,967	76.88

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	53	$210,001 - $220,000	5
$110,001 - $120,000	33	$220,001 - $230,000	1
$120,001 - $130,000	41	$230,001 - $240,000	5
$130,001 - $140,000	35	$240,001 - $250,000	2
$140,001 - $150,000	25	$250,001 - $260,000	1
$150,001 - $160,000	20	$260,001 - $270,000	2
$160,001 - $170,000	27	$270,001 - $280,000	3
$170,001 - $180,000	9	$290,001 - $300,000	1
$180,001 - $190,000	7	$310,001 - $320,000	1
$190,001 - $200,000	5	$440,001 - $450,000	1
$200,001 - $210,000	4		

SCOTT TECHNOLOGY LIMITED
DIRECTORS' INTERESTS
For the Year Ended 31 August 2019

Directors' Shareholding as at 31 August 2019

	Beneficially Owned		**Held by Associated Persons**		**Non-Beneficially Held * (Jointly)**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
C C Hopkins**	43,988	55,964	5,638,238	5,612,297	17,779	17,779
S J McLauchlan	398,360	384,994	-	-	17,779	17,779
J M Thorman	-	-	-	-	-	-
D G Charge	-	-	-	-	-	-
A Nogueira	-	-	-	-	39,912,982	38,476,592
H B Eastwood	-	-	-	-	39,912,982	38,476,592
E Alvares	-	-	-	-	39,912,982	38,476,592
J K Berry (alternate)	-	-		-	39,912,982	38,476,592
	442,348	440,958	5,638,238	5,612,297		

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

** 5,500,000 associated persons shares are in C C Hopkins' capacity as a Director of Oakwood Group Limited. C C Hopkins has no beneficial ownership in Oakwood Group Ltd.

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)	662*	27 Nov 2018	2
C C Hopkins (beneficially)	8,000	27 Dec 2018	21
C C Hopkins (associated person)	664*	14 May 2019	2
C C Hopkins (associated person)	2,551*	27 Nov 2018	7
C C Hopkins (associated person)	2,088*	14 May 2019	5
S J McLauchlan (beneficially)	7,350*	27 Nov 2018	21
S J McLauchlan (beneficially)	6,016*	14 May 2019	15

*Share acquisitions in relation to the dividend reinvestment plan.

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 2019

Disclosures of Interest by Directors

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

S J McLauchlan

Chairman	Analogue Digital Instruments Group
Chairman	BPAC Clinical Solutions Management Ltd
Chairman	Compass Agribusiness Management Ltd
Chairman	Otago Community Hospice
Chairman	The New Zealand Whisky Co., Ltd
Chairman	UDC Finance Limited
Chairman	University of Otago Foundation Studies Ltd
Chairman	Woodworks Southern Ltd
Partner/ Director	GS McLauchlan & Co Ltd
Director	Argosy Property Ltd
Director	Cargill Hotel 2002 Ltd
Director	Dunedin Casinos Ltd
Director	EBOS Group Ltd
Director	Ngai Tahu Tourism Ltd
Director	Openwave Systems (New Zealand) Ltd
Director	Scenic Hotel Group Ltd
Director	Scott Technology NZ Ltd
Director	Orari Street Properties Ltd
Director	Rosebery Holdings Ltd
Director	Scott Automation Ltd
Board Member	Otago Southland Employers Association
Trustee	Scott Technology Employee Share Purchase Scheme

H 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	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

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

E Alvares

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

SCOTT TECHNOLOGY LIMITED
DIRECTORS' INTERESTS
For the Year Ended 31 August 2019

Disclosures of Interest by Directors (Cont.)

C C Hopkins

Chairman	Dunedin Engineering Inc
Chairman	Robotic Technologies Ltd
Director	Dunedin City Holdings Ltd
Director	Dunedin City Treasury Ltd
Director	Dunedin Stadium Property Ltd
Director	Oakwood Group Ltd
Director	QMT General Partner Ltd
Director	Rocklabs Automation Canada Ltd
Director	Scott Technology S.A.
Director	Scott Technology wholly owned subsidiaries
Director	G W Batts Trustee Ltd
Director	Spade Work Ltd
Director	Our Planit Ltd
Trustee	Scott Technology Employee Share Purchase Scheme
Shareholder	Penfold Transmission Ltd

D G Charge

Director	Charge Advisory Ltd

J M Thorman

Director	Attenti New Zealand Ltd
Director	AVC Title Queenstown Ltd
Director	Haumi Company Ltd
Director	Haumi Development Auckland Ltd
Director	Hikvision New Zealand Ltd
Director	Hoffend International General Partner Ltd
Director	International Paper (New Zealand) Ltd
Director	Juvare Asia Pacific Ltd
Director	Kiri General Partner Ltd
Director	LPI Marketing Ltd
Director	Ora New Zealand Ltd
Director	Orbcomm New Zealand Ltd
Director	SHL New Zealand Ltd
Director	SmileDirectClub NZ
Director	Swarm NZ Ltd
Director	Thorman Holdings Ltd
Director	TMF Corporate Services New Zealand Ltd
Director	TMF Fiduciaries New Zealand Ltd
Director	TMF General Partner Ltd
Director	TMF Trustees New Zealand Ltd
Director	Travel Helpline Ltd
Director	Vega Industries Ltd

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

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

SCOTT TECHNOLOGY LIMITED
DIRECTORS' INTERESTS
For the Year Ended 31 August 2019

Remuneration of Directors

During the year ended 31 August 2019, 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*	-	388	16	(76)
S J McLauchlan	125	-	-	-
J M Thorman	70	-	-	-
D G Charge	33	-	-	-
A Nogueira**	-	-	-	-
H B Eastwood**	-	-	-	-
E Alvares**	-	-	-	-
J K Berry (alternate)**	-	-	-	-

* Denotes an Executive Director who receives a salary.

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

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:

	2019 Male	2019 Female	2018 Male	2018 Female
Directors (excluding alternate)	6	-	6	-
Executive Officers	2	3	3	3
Senior Management	10	3	11	1
	18	6	20	4

Donations

The Company made donations of $8,000 during the year (2018: $5,000).

Deloitte.

Independent Auditor's Report

To the Shareholders of Scott Technology Limited

Opinion

We have audited the consolidated financial statements of Scott Technology Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 August 2019, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 3 to 54, present fairly, in all material respects, the consolidated financial position of the Group as at 31 August 2019, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

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

Audit materiality

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

We determined materiality for the Group financial statements as a whole to be $850,000.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Recognition of Profit on Long Term Projects The Group's most significant revenue stream relates to long term projects for customers in various industries. Revenue and profit on long term projects are accounted for based on management's estimate of the percentage of completion of the individual contracts as detailed in note A1. There is a significant level of judgement involved in the recognition of revenue and profit on long term projects driven by factors which arise throughout the life of the project requiring estimation, and contract conditions differing between projects. For these reasons, we have identified this area as a key audit matter.	Our procedures included, among others: • **Assessment of controls** – Assessing the group's processes and controls around preparation/calculation of the percentage of completion. • **Hindsight consideration** – For a sample of projects in place at the end of the prior year, we compared the current year actual results to prior year forecasts to assess the reliability of management estimates relating to the cost of completion. • **Testing of revenue on long term projects** – For a sample of contracts, we performed the following procedures: – Assessed whether the key estimates made by management reflect the terms and conditions of the contract; – Evaluated cost to complete forecasts by challenging management's key assumptions and comparing revenue recognition calculations to project cost forecasts prepared by project managers; – Obtained evidence of scope variations and claims and verified that these have not been included in management's determination of revenue recognition until agreed with the customer; and – Tested the costs incurred on long term projects during the year to validate the costs and assess whether they have been applied to contracts appropriately.
Goodwill Impairment Assessment As at 31 August 2019, there is $58.0 million (2018: $56.6 million) of goodwill included on the balance sheet of the Group as detailed in note B5. The balance is held across three cash generating units. NZ IAS 36: *Impairment of Assets* require the Group to complete an impairment test related to goodwill annually. The assessment of value in use is performed using a discounted cash flow calculation. This calculation is subjective, and requires the use of judgement, primarily in respect of: • Forecast cash flows, particularly in relation to future project wins and market conditions; and • Discount rates. We have assessed a key audit matter in relation to the significant judgements and estimates required in preparing the value in use model.	We considered whether the Group's methodology for assessing impairment is compliant with NZ IAS 36. We focused on testing and challenging the suitability of the models and reasonableness of the assumptions used by the Group in conducting their impairment reviews. Our procedures included, among others: • **Assessment of controls** – Assessing the group's processes and controls around the value in use calculation. • **Cash generating units** (CGU) – We assessed management's determination of cash generating units and our understanding of the Group's business and operating environment. • **Past performance** – We assessed the reasonableness of forecast figures by looking at historical performance against past forecasts. • **Use of specialists** – We used our internal valuation experts to assist in our evaluation of the reasonableness of the discount rates applied by the Group through consideration of the relevant risk factors for each CGU or impairment model, the cost of capital for the Group, and market data on comparable businesses. • **Integrity check** – We assessed the mathematical accuracy of the models. • **Sensitivity analysis** –We evaluated the sensitivity analysis performed by management to consider the extent to which a change in one or more of the key assumptions could give rise to impairment in the goodwill.

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 will 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
24 October 2019