

# 2011 ANNUAL REPORT



APPLIANCE MANUFACTURING SYSTEMS



MEAT PROCESSING AUTOMATION



LABORATORY SAMPLE PREPARATION



INDUSTRIAL AUTOMATION



HIGH TEMPERATURE SUPERCONDUCTORS



SERVICING & UPGRADES



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# HIGHLIGHTS

Revenues up 15% and profit  
up 32% on prior year

Successful rights  
issue raising \$9.5  
million new capital

Successful business acquisitions  
completed

Strong balance  
sheet with all bank  
loans repaid

7.00 cents per  
share annual  
dividend fully  
imputed

Dividend reinvestment plan

## ANNUAL MEETING

Thursday 8 December 2011 at 4.00pm  
at Scott Technology Limited,  
630 Kaikorai Valley Road, Dunedin.  
Proxies close Tuesday, 6 December 2011 at 4.00pm.

## FINAL DIVIDEND

Five cents per share, fully imputed.  
Record date: 23 November 2011  
Payment date: 2 December 2011  
Able to participate in dividend reinvestment plan.





*Your Directors are pleased to report that the Company produced a profit before tax of \$7.3 million, an increase of 32% on prior year, on operating revenues that are up 15% to \$53.6 million for the year ended 31 August 2011.*

The net profit after tax for the year was \$5.2 million compared to \$2.8 million in 2010. Equity attributable to shareholders of the parent Company at 31 August 2011 was \$34.5 million, compared to \$21.4 million at 31 August 2010.

The international, export oriented nature of the business is highlighted by 89% (\$47.5 million) of total revenues being derived outside New Zealand. This is against the backdrop of an extremely difficult global economic climate.

The completion of a successful capital raising by way of a 1 for 4 rights issue, combined with operating cashflow of \$3.4 million, has enabled the Company to repay all debt, which was taken on to assist with recent acquisitions. The Company is supported by a strong balance sheet with total assets of \$47.1 million and cash on hand of \$3.5 million.



Scott specialises in the design and manufacture of large scale automated manufacturing systems for the world's major whitegoods manufacturers. Scott's automated systems are used by our customers to manufacture domestic appliances such as ovens, refrigerators, dishwashers and washing machines. 100% of production is exported, mainly to the United States, Mexico, China and Europe. Sales and marketing is co-ordinated from New Zealand, supported by local sales offices in Dallas, Texas, covering the Americas; Milan, Italy, covering Europe and the Middle East; and mainland China (Shanghai and Qingdao) covering Asia. During 2011 our Appliance Manufacturing Systems division worked on automated systems destined for the United States, Australia, Brazil and China.



## DIVIDEND

A fully imputed final dividend of 5.0 cents per share has been declared by the Directors in respect of the year ended 31 August 2011, payable on 2 December 2011. An interim dividend of 2.0 cents per share was paid in April 2011, bringing the total dividend to 7.0 cents per share for the year. The final dividend is payable on the increased shares on issue following the rights issue, while the total dividend represents a payout of 49%. The Dividend Reinvestment Plan that we implemented during the year applies to this payment. This reflects the Directors' confidence in the growth and trading ability of the Company, supported by the underlying strength of the Company's balance sheet.

## OVERVIEW

Scott Technology ('Scott') has continued its trend from recent reporting periods, with increased revenues and profits supported by growth in the demand for our products around the world. Our engineered products, knowledge and know how, used to build automated and robotic production systems, is world class. We lead the world in our chosen markets and we supply technology solutions to many leading international companies spread around the globe.

Significant acquisitions were completed during the year. The purchase of our reference material supplier and a

business that engineers electro-magnet solutions using high temperature superconductors has enabled us to grow our profit, our capabilities and our potential, and to further expand our technology solutions. These businesses are being integrated with our existing activities and these, along with our recently announced purchase of an established manufacturing facility in China from a New Zealand company, provide the Company with future growth prospects.

Our Company's vision "To be the Global Innovator in Automation" has kept us focused on developing technology and smart solutions to build a sustainable business. As part of our vision we undertook significant expenditure on research and development activities across all target markets.

Strategic partnerships and preferred supply agreements with key customers help ensure successful commercial outcomes. With increasing scale and an expanding pool of smart resources, the Company is able to ensure the best skills and technologies are deployed to provide innovative solutions.

During the year we further strengthened the management team. Skilled managers joined the Group as a result of business acquisitions and more were recruited directly.

## THE GLOBAL INNOVATOR IN

# APPLIANCE MANUFACTURING SYSTEMS



*Left and above: Production line for hot water cylinder cases, including a vertical destacking bay.*

*Chairman's Report Continued.*

In addition there has been internal development of staff across all levels of the business, with a focus on training and development programmes.

The Board's focus is on ensuring our business strategy is appropriate for the current global economic environment. We are confident that the opportunities and initiatives pursued within our strategic framework will provide a solid platform for growth.

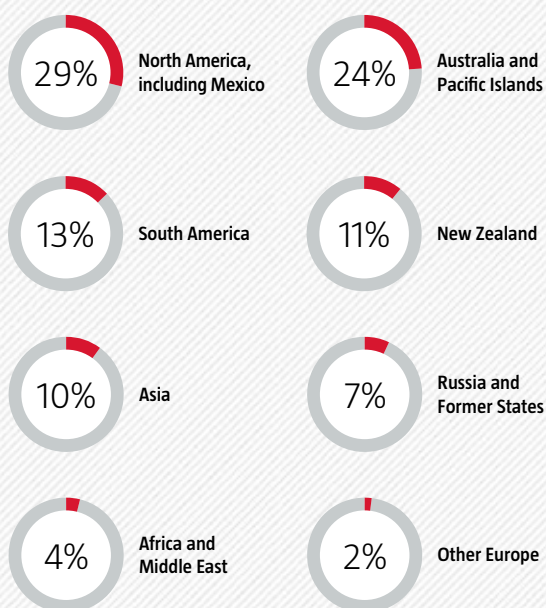
The Scott Board thanks all of our shareholders for their continued support of the Company and looks forward to meeting shareholders attending this year's Annual Meeting in Dunedin.

Finally, I would like to thank the Board; our Managing Director, Chris Hopkins; and all of our talented employees for their efforts and continued commitment to the Company over the past year.



**Stuart J McLauchlan** - CHAIRMAN

#### GROUP SALES BY REGION

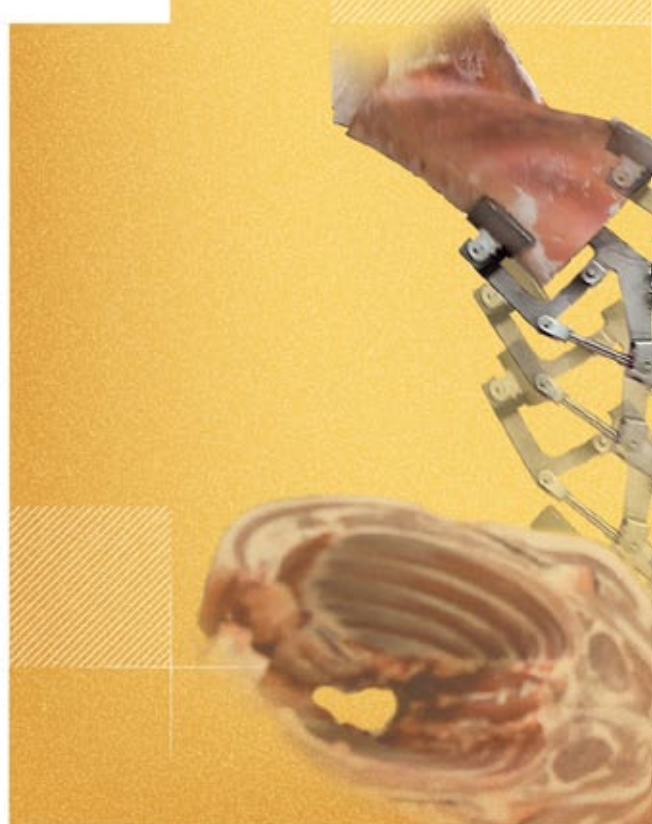


#### THE GLOBAL INNOVATOR IN

## MEAT PROCESSING AUTOMATION



*Cross cut in processing a lamb saddle.*





ATION



*Robot transferring a saddle from the primal system to middle processing.*

Scott works with meat processors to develop and build smart solutions for lamb and beef boning operations. Meat processing automation is focused on the key development markets of New Zealand and Australia, with Australian sales and marketing support based in Sydney. Through Robotic Technologies Limited, our joint venture with Silver Fern Farms Limited, we are developing a fully automated and integrated lamb boning room, using a combination of robotic technology and x-ray information system integration. We have already commercialised the x-ray, primal cut and hindquarter systems within the boning room, with the middle and forequarter sections currently in testing, prior to their full commercialisation. We have also entered into a joint venture with Northern Co-operative Meat Company Limited of Australia to develop meat processing equipment for the beef industry.







## MANAGING DIRECTOR'S REPORT

*For the year ended 31 August 2011*

*Scott's vision to be the "The Global Innovator in Automation" has been behind much of our growth in the year to 31 August 2011. Diversification of our business commenced several years ago, through both organic growth and acquisitions, and these actions have enabled us to continue to grow. The challenging global economic climate, coupled with the volatile New Zealand dollar, has meant that various parts of the business have performed differently but have combined to produce a solid result and dividend, despite the challenging conditions.*

### HIGHLIGHTS

#### Acquisitions

During the first half of the year we acquired the Company's supplier of reference materials for gold and other precious metals. This strengthened and secured our supply chain and the acquisition contributed well to the Group's earnings through improved margins, although it did not add to total reported revenues.

During the second half of the year the Company acquired a controlling interest in HTS-110 Limited, a world leader in providing engineered electro-magnet solutions utilising high temperature superconducting wire and associated technologies. Use of superconductors in industrial applications is now being developed by some of the world's largest high tech industries and it is expected that this market will grow substantially once the trend is established. Industries currently prototyping high temperature superconducting technology include pharmaceutical companies, hard disk drive and other electronic manufacturers, power transmission, wind turbine manufacturers, mining companies and providers of medical imaging systems. Over the next year HTS-110 will add revenues but earnings will be subdued as our continued research and development is expensed.

### THE GLOBAL INNOVATOR IN

## LABORATORY SAMPLE PREPARATION



*Rocklabs AP-300 system destined for Chile which can crush, split and pulverise for analysis up to 300 samples per day.*



At the end of our financial year we announced the purchase of a 75% shareholding in a Chinese manufacturing facility from, and in conjunction with, another New Zealand manufacturer. This transaction was completed subsequent to our 31 August 2011 balance date.

### Growth

The Company achieved broad growth, both in terms of revenue and earnings, particularly within our mining markets around the globe. This growth was underpinned by Scott's automation expertise and experience, and was further assisted by the realisation of past research and development activities which saw the introduction of new products such as a larger capacity Ring Mill and an Automated Batch Mill to the Rocklabs range of products. These products complement our existing products and are targeted at the sample preparation market for mining companies and laboratory companies serving the mining industry.

### Commercialisation

The Company continued its ongoing and further commercialisation and development of meat processing technology. During the year we produced X-Ray and Primal cutting equipment for an Australian customer and X-Ray Grading systems for our joint venture partner, Silver Fern Farms. Further products and components of our Automated Lamb Boning Room are being readied for full production trials and commercialisation.

### Research and Development

Our total spend on research and development during the year was in excess of \$8.5 million. This includes our own direct investment, as well as indirect research and development in technologies we applied to solutions that we sold to customers, and research and development which is fully funded by industry, Government (New Zealand and Australia) and strategic partners.

### MARKETS

We define and analyse our business activities by the markets we serve. It is therefore appropriate to provide commentary on each of these market areas:

#### Appliance Manufacturing Systems

This market was, and remains, particularly challenging. The European market was especially quiet, while around the rest of the world we also see a general reluctance by companies to commit to large capital expenditure projects. We have a high number of enquiries, however the key challenge is to convert these enquiries into orders.

We continue to work closely with the world's largest, most progressive appliance manufacturers and during the year we shipped systems to and/or worked on projects for seven countries.

*Core samples of rock, prior to processing in a Rocklabs system.*



The Scott Group designs and manufactures laboratory sample preparation equipment under the "Rocklabs" brand, primarily for use within the mining industry. Rocklabs exports 98% of its manufactured equipment, with key markets being North and South America; Russia and the former Russian States; South America; and Australia. Rocklabs have traditionally manufactured standalone equipment which is used to crush, split and pulverise a representative sample so that it can then be analysed for its precious metal content. Following Scott's acquisition of Rocklabs in 2008, Rocklabs have leveraged off Scotts' expertise to extend the Rocklabs range of products and automated systems offered. During 2011 large automated systems worked on were destined for the United States, Chile and Australia.

*Rocklabs Rotating Sample Divider equipment ready for use in a laboratory.*





In last year's report we noted the trend in the market for reduced cost, increased flexibility and systems that support lean manufacturing – all with reduced equipment delivery times. In response to these trends we have initiated activities and processes, such as:

- Modulisation – to reduce cost and shorten delivery times.
- Developing standalone manufacturing cells that support lean manufacturing and provide increased flexibility.
- Developing patented flexible folder technology that will provide ultimate flexibility without compromising quality.

With appliance manufacturers wanting to update models without necessarily replacing entire production lines there is strong demand for upgrades, along with increasing service and spare parts delivery. This service area has again performed well in terms of revenue and contribution and we anticipate that with new energy efficiency requirements in the US, along with appliance manufacturers worldwide continually looking to update their models, the service side of the business will continue to perform strongly.

### **Meat Processing Automation**

Most of our technology and development has been undertaken through our joint ventures with Silver Fern Farms and Northern Co-operative Meat Company (NCMC). Our Silver Fern Farms joint venture, Robotic Technologies Limited, primarily focuses on automated lamb boning equipment and our joint venture with NCMC primarily focuses on beef development projects in the Australian market. The technologies we are developing are being trialled and commercialised initially in New Zealand and Australia but will ultimately have global application.

Production trials in the year ahead will see our middle processing and forequarter processing equipment operating in a production environment. These products, combined with our X-Ray and Primal Cutter and Hindquarter Leg Deboning robot, make up the majority of a fully automated lamb boning room. We continue to heavily engage industry, both in New Zealand and Australia, to ensure the systems and processes are appropriate and aligned to industry requirements.

Several enquiries are being progressed but any orders will follow the successful installation of our X-Ray Primal Cutter into Australia and extensive trials of our Middle, Hindquarter and Forequarter systems at Silver Fern Farms' Finegand plant.

During the year we built the first X-Ray Primal Cutter for the Australian market. This has been shipped and is expected to be installed and fully commissioned by December 2011. This transaction was financed with the assistance of the New Zealand Export Credit Office and will be a significant showpiece for our technology in the Australian market.

## **THE GLOBAL INNOVATOR IN**

# INDUSTRIAL AUTOMATION



*Rollforming production line used to produce steel framing for buildings.*

During the year we also progressed our beef processing technologies. This was underpinned by further commercial sales of our Operator Assist Beef Boning Unit. Advanced work on beef processing research and development projects is providing Scott with a foothold in the beef market which offers enormous global potential.

In this market we achieved sales of \$6.4 million during the year, which was up from \$4.9 million in 2010 and we are currently working on projects totalling \$6.5 million. The Company has strong enquiries for processing systems in New Zealand and Australia and several early stage enquiries from Europe.

### **Laboratory Sample Preparation**

This market is influenced and driven by the global commodity cycles. Strong demand for commodities combined with high prices, in particular for gold, enabled Scott to increase sales to \$28.4 million in 2011, up from \$19.1 million in 2010. New products introduced toward the end of the year assisted and we expect a strong contribution from these new products and systems in the year ahead.

Large automated system sales did not have the same level of demand growth, although we are now seeing increasing focus and a drive on automation by the mining industry to address labour and safety issues evident around the world.





*Honey centrifuge for the separation of honey and wax.*

Scott also designs and manufactures production equipment for industries that are outside of our other key focus areas of appliance manufacturing systems, meat processing automation, high temperature superconductors and laboratory sample preparation. Past projects include steel framing manufacturing lines, bracket assemblies for overhead doors, sheetmetal cabinet and welding systems for gaming machines, handling equipment for smelters and water heater fabrication systems. Scott has entered into a number of strategic partnerships whereby Scott provides specialist design and manufacturing expertise to enable our customers to automate their production processes, while our partner provides expertise in their field of operations. Often these partnerships are established in the early stages of a customer's product development lifecycle where they are looking to develop an innovative and cost-effective solution, but where there is also the potential to provide Scott with repeat manufacturing in the future.

Acquisition of our reference material supplier boosted earnings derived from this sector during the year. The integration of this business and the full integration of the Rocklabs business into Scott has been a key activity during 2011.

The Rocklabs customer base continues to expand. A preferred supplier agreement with a major international laboratory group customer has commenced and provides the confidence to enable us to continue our investment in, and development of, this market.

### **Industrial Automation**

This target market is also referred to as our "Incubator Services" market, so called as we look to incubate ideas or products that have wide global appeal. Scott has only recently entered this market but it is one that is continuing to grow and show promise.

Several projects are underway that require considerable investment in research and development. This investment is required now in order to provide sustainable markets for the future. Areas of focus for our research and development activities include dairy sector automation and machine vision technology. We continue to work with our dairy farmer partners where progress has been steady and we expect to

have several working prototypes on farm within the next 12 months. A strategic relationship has also been established with a highly specialised industrial vision company. This technology underpins not only our dairy project, but also our meat processing market and other industrial applications.

This market achieved sales of \$0.9 million in 2011 compared to \$1.0 million in 2010. We expect these markets to be a key driver of future growth for Scott. The Company is currently working on partner projects in this area worth in excess of \$5.7 million.

The dairy sector investment is expected to progress with production prototypes on display in early 2012, followed by commercialisation in 2013.

### **High Temperature Superconductors**

This is essentially a new market for Scott. As noted earlier, this market is potentially large but the technology is still new and developing. We see significant cross selling opportunities within our existing markets and we are already progressing several enquiries in this regard. The key focus for this business is two-fold:

1. Maintain the research and development activities undertaken by ourselves and also in conjunction with the Crown Research Institute, Industrial Research Limited.



This on-going research and development is required to ensure that technologies can be translated into commercial applications.

2. Drive commercialisation of technologies and products that are being readied for release to market. Target areas include patented cryo-cooler technology and nuclear magnetic resonance, or NMR. Particular applications are being prototyped for the pharmaceuticals industry, while the other area of focus is commercialisation of our developed and patented cryo-cooler technology. These areas will be followed by other technologies, including magnetic resonance imaging (MRI).

Before our reinvestment into research and development, HTS-110 contributed positively, albeit at low levels, in the five months to 31 August 2011. We expect the result to be similar for 2012 as we continue to develop and execute our commercialisation plans. HTS-110 added \$2.3 million to Group revenues in 2011. Direct research and development reinvestment in the five months to 31 August 2011 was \$310,000.

## LOOKING FORWARD

The Company is well positioned to face the uncertain global economic environment. Our automation and engineering expertise is now being applied to a diversified range of markets, with a growing reputation and a growing customer base.

The Company has a good forward order book. As in the past year, we expect that the Company's markets will perform at different levels in the year ahead, with Europe expected to be particularly slow. Our appliance systems business will be steady and we expect that our main growth will be driven by mining, meat processing and industrial automation.

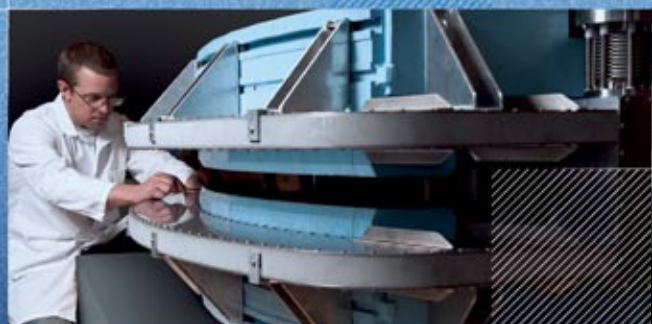
The Company has a strong balance sheet following the capital raising which was well supported by shareholders, both existing and new. This enabled us to repay the debt taken on to complete recent acquisitions. These acquisitions have been integrated and opportunities maximised.

During the year we have begun to see the returns from past research and development investment. Our investment will be ongoing and this will be supported, in part, by Government, both in New Zealand for all aspects of our business and Australia for the meat processing sector.



*Chemist placing a sample into an NMR system for analysis.*

The Scott Group designs and manufactures electro magnets using high temperature superconductor technologies under the "HTS-110" brand. Customers or end customers include the world's largest hard disk drive manufacturers and pharmaceutical companies. Standard magnets and systems have been developed for Nuclear Magnetic Resonance (NMR) and are now ready for commercialisation. High temperature superconductor magnets need cooling and HTS-110, in conjunction with Industrial Research Limited, has licensed patented cryocooler technology which will be used in HTS-110's systems and which also has its own commercialisation opportunities.





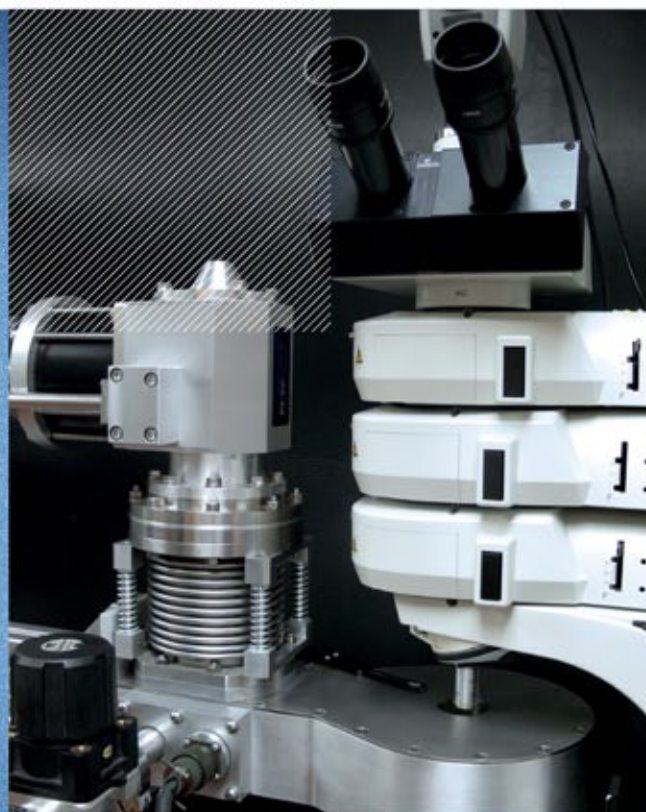
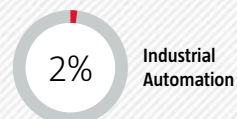
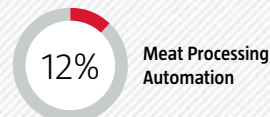
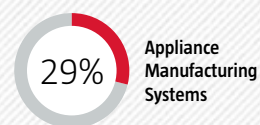
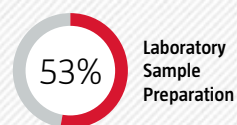
The Company sees major opportunities within the wider Asian area and this provided the confidence to acquire a 75% shareholding in a Chinese manufacturing facility. The facility comes with a four year contract manufacturing arrangement for an existing range of products manufactured for New Zealand based Teknatool International, the previous owner of this business. Purchasing an existing facility from a New Zealand owner was determined to be a better option than a greenfield development. It is expected that the existing manufacturing contract will cover most costs and will enable us to progressively use this China base to take advantage of the opportunities within the Chinese and wider Asian markets.

The Company is now well positioned for further growth in the year ahead. Our diversified markets with strong enquiries and our own development opportunities underpin this confidence. Our dedicated staff, the Board and our shareholders can take pride in what the Company has achieved and can look forward to further growth in the year ahead.



**Chris Hopkins** - MANAGING DIRECTOR

## GROUP SALES BY END CUSTOMER INDUSTRY

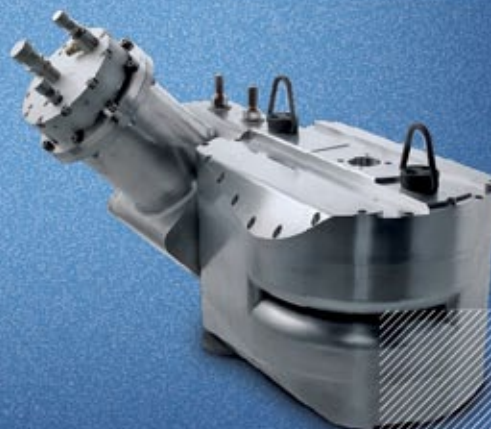


*An HTS-110 electro magnet in final stages of construction.*

## THE GLOBAL INNOVATOR IN

# HIGH TEMPERATURE SUPERCONDUCTORS

*An HTS-110 electro magnet used for synchrotron research.*





# STRATEGIC PARTNERSHIPS

Scott has entered into a number of strategic partnerships to help accelerate product development and grow revenue streams. These may take the form of joint ventures or strategic shareholdings in subsidiary or associate companies, depending on the extent of Scott's involvement and financial contribution to the arrangement. Typically these strategic partnerships combine Scott's wealth of engineering experience and innovative thinking with our partner's industry expertise to produce market leading, innovative automation systems.

## Silver Fern Farms

Scott's joint venture with Silver Fern Farms Limited, Robotic Technologies Limited (RTL), was established in 2003 to develop and market primarily lamb meat processing equipment. RTL is developing a fully automated and integrated lamb boning room, using a combination of robotic technology and x-ray information system integration, with many parts of this system having already been commercialised.

## Milktech

Scott has partnered with a dairy farmer group to develop and apply automation, including robotics, to on-farm activities. The project is reaching an advanced stage and the results to date are promising. The joint venture expects to be in a position to launch the system within the next twelve months.

## Beetech

Scott has developed a market leading honey and wax separator in conjunction with Beetech. A joint venture is to be established to further develop and market this technology in the honey industry, as well as to apply the same technology to other industries.

## Northern Co-Operative Meat Company

Scott's joint venture with Northern Co-Operative Meat Company Limited of Australia, NS Innovations Pty Limited, was established in 2009 to develop and market beef processing equipment.

## Teknatool

Shortly after financial year end, Scott acquired a 75% shareholding in a Chinese manufacturing company from New Zealand company, Teknatool International, a manufacturer of woodworking equipment and intelligent drive motor technology. Teknatool will continue to manufacture their equipment through the Chinese company, while Scott will grow the Chinese manufacturing and procurement capability to also support Scott's existing business.

## Robot Vision Lab

Scott owns a 40% shareholding in Robot Vision Lab Limited, which was established in 2011 to provide specialist vision and robotics services to its customers. Scott's shareholding provides it with preferential access to Robot Vision Lab's services.





## BOARD OF DIRECTORS

### **Chris C Hopkins**

#### **Managing Director**

BCom, CA  
Dunedin  
Appointed Director 2001

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

### **Christopher J Staynes**

#### **Independent Director**

BSc  
Dunedin  
Appointed Director 2007

Chris Staynes commenced his career in 1973, gaining experience in product design and production engineering. He advanced his career from senior product design engineer, to product engineering manager and lastly to General Manager for a local appliance manufacturer from 1980 until his retirement in 2006. Chris Staynes is also a Councillor and Deputy Mayor of Dunedin City.

### **Stuart J McLauchlan**

#### **Chairman and Independent Director**

BCom, FCA(PP), A.F.Inst.D  
Dunedin  
Appointed Director 2007

Stuart McLauchlan is a Senior Partner of GS McLauchlan & Co Business Advisors and Accountants, a prominent businessman and company director.

Stuart McLauchlan is a Director of Scenic Circle Hotels Ltd, Dunedin International Airport Ltd, Dunedin City Holdings Ltd, Dunedin Casinos Ltd, Aurora Energy Ltd, AD Instruments Pty Ltd, City Forests Ltd, Delta Utility Services Ltd and several other companies.

He is also Chairman of the NZ Sports Hall of Fame, Chairman of Pharmac Ltd, Chairman of UDC Finance Ltd, Pro-Chancellor of the University of Otago and a member of the National Executive of the Institute of Directors.

### **Mark B Waller**

#### **Independent Director**

BCom, ACA, FNZIM  
Christchurch  
Appointed Director 2004

Mark Waller is Chief Executive and Managing Director of EBOS Group Ltd; and a Director of EBOS Group Pty Ltd, EBOS Health & Science Pty Ltd and PRNZ Limited.

### **Graham W Batts**

#### **Independent Director**

CEng., FIPENZ, Hon., NZCE  
Dunedin  
Appointed Director 1969

Graham Batts joined the Company in 1956 and was Managing Director from 1969 to 1999. He spent a further 18 months in an executive role based in London assessing the European market. Since retirement from his executive role in October 2000, Mr Batts has remained a Consultant to the Company.

# CORPORATE GOVERNANCE

## 1. ETHICAL STANDARDS

The Board has developed and implemented a code of conduct which contains expectations and policies for Directors and employees carrying out their duties.

The code of conduct covers such matters as:

- Obeying the applicable laws and regulations governing our business conducted worldwide;
- Being honest, fair and trustworthy in all activities and relationships;
- Avoiding all conflicts of interest between work and personal affairs;
- Striving to create a safe workplace and to protect the environment;
- Through leadership at all levels, sustain a culture where ethical conduct is recognised, valued and exemplified by all employees; and
- Details raising integrity concerns and the procedure for dealing with these.

The code of conduct was approved by the Board at its June 2004 meeting and has been made available to all staff. The Board monitors compliance with the code of conduct on a regular basis.

## 2. BOARD COMPOSITION AND PERFORMANCE

The Board comprises four non-executive Directors and one Executive Director. Each of the Directors brings a broad range of skills, knowledge and experience to the Board. The independent Directors on the Board are Graham Batts, Mark Waller, Chris Staynes and Stuart McLauchlan. The Board of Directors maintains effective control over the company, as well as monitoring executive management. The Directors formally meet a minimum of ten times throughout the year, plus additional meetings as required, and oversee all matters of corporate governance, development of long term strategic plans, financial management and reporting to shareholders. The process for the appointment of Directors is detailed in the Company's constitution. Continuing professional development is encouraged for all Directors.

*The corporate governance processes set out in this statement do not materially differ from the principles set out in the NZSX Corporate Governance Best Practice Code. This statement follows the nine principles published by the Securities Commission and reports on how Scott Technology Limited seeks to comply with these principles.*

## 3. BOARD COMMITTEES

The Board has formally constituted committees, being the Audit, Remuneration and Nomination, and Treasury committees. These committees enhance its effectiveness in key areas whilst still retaining Board responsibility.

### Audit Committee

The Audit Committee oversees internal controls and financial reporting and reviews the Company's financial accounts, in conjunction with the Company's auditors. It reviews the annual and interim reports prior to approval by the Board and deals with the appointment of external auditors. The Audit Committee comprises the full Board.

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee is comprised of the non-executive Directors. The purpose of the committee is to ensure that the Company's Directors and senior executives are fairly rewarded for their individual contributions to the Company's overall performance. Due to the size and level of activity of this committee, it also includes the role of recommending Director appointments to the Board.

### Treasury Committee

The Treasury Committee oversees the Company's treasury practices, including foreign exchange cover and short term cash investments. The Treasury Committee comprises Stuart McLauchlan, Chris Hopkins and Greg Chiles, the Group's Chief Financial Officer.

## 4. REPORTING AND DISCLOSURE

Numerous safeguards are in place to ensure the integrity and quality of financial statements given to Directors. This includes an effective system of internal controls to ensure reliable financial reporting.

The Board Audit Committee and external auditors have a pivotal role in ensuring the integrity of the publicly released financial documents.

In addition to the annual report and interim results, continuous disclosure to the New Zealand Stock Exchange forms part of the reporting and disclosure of the Group.





As part of these continuous disclosure obligations, there are formal procedures, including the Chairman's approval for the public release of Company information.

#### 5. REMUNERATION

As mentioned above, the Remuneration and Nomination Committee sets the remuneration of Directors, both Executive and Non Executive. Remuneration and other benefits paid to Directors are disclosed on page 55.

The Company recognises the need to provide competitive remuneration to attract and retain high calibre executives and Directors.

#### 6. RISK MANAGEMENT

The Board is responsible for the Company's system of internal controls. A review of potential risks is carried out annually to determine a risk profile and to approve an appropriate response. The Board also considers the recommendations made by external auditors and acts on these accordingly. Processes are in place to identify, monitor and manage risks.

#### 7. AUDIT

The Board, through the Audit Committee, ensures the quality and independence of the external audit process is maintained. To maintain auditor independence, the audit

partner will be rotated at intervals not exceeding 5 years. Audit fees and other services primarily tax advice and other assurance services, performed by Deloitte, are disclosed in note 2 of the financial statements.

#### 8. SHAREHOLDER RELATIONS

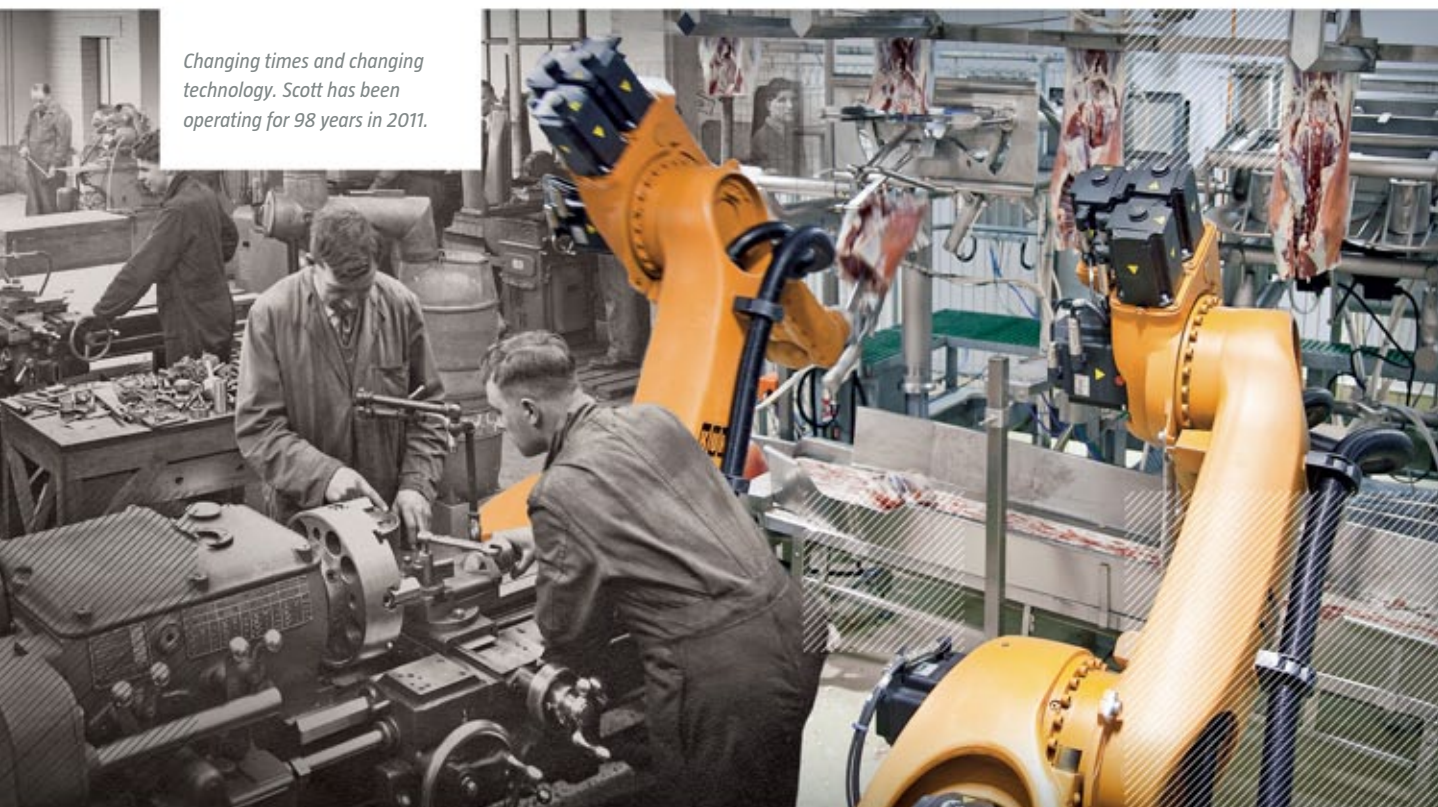
The Company maintains an up to date website ([www.scott.co.nz](http://www.scott.co.nz)) providing a description of its business and financial statements for previous years. It also distributes or makes available the half yearly and annual reports to all shareholders and interested parties. All shareholders are encouraged to attend the annual meeting. Our auditors, along with the Board, attend the annual meeting for formal and informal interaction with shareholders.

#### 9. STAKEHOLDER INTERESTS

Staff are recognised as a key stakeholder in the Group. The Company seeks to create and maintain a positive supporting environment for them to work in. The Directors have established an employee share purchase scheme to encourage staff to participate in the ownership of the Company.

Customers' interests are catered for by sharing customer specific information via a private log-in to the Scott website.

*Changing times and changing technology. Scott has been operating for 98 years in 2011.*



## 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 give a true and fair view of the financial position of Scott Technology Limited and Group as at 31 August 2011 and the results of their operations and cash flows for the year ended 31 August 2011.

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

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

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 Company and 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 2011.

These financial statements are dated 5 October 2011 and are signed in accordance with a resolution of the Directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and behalf of the Directors



**S J McLauchlan** - CHAIRMAN



**C C Hopkins** - MANAGING DIRECTOR



# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 August 2011

		Group		Parent	
	Note	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>Continuing Operations</b>					
Revenue		53,603	46,589	25,048	25,215
Other income	2(a)	5,606	32	4,809	-
Share of joint ventures' & associates' net surplus	11	53	89	-	-
Raw materials & consumables used		(25,306)	(22,215)	(11,927)	(11,488)
Employee benefits expense		(17,394)	(14,185)	(11,101)	(9,645)
Depreciation & amortisation	10, 13	(1,018)	(958)	(746)	(730)
Finance costs		(494)	(414)	(316)	(146)
Other expenses		(7,737)	(3,398)	(1,817)	(387)
<b>NET SURPLUS BEFORE TAXATION</b>	2(b)	7,313	5,540	3,950	2,819
Taxation expense – operating activities		(2,096)	(1,650)	(1,077)	(850)
Taxation expense – deferred tax adjustment on buildings		-	(1,098)	-	(1,098)
Taxation expense	3	(2,096)	(2,748)	(1,077)	(1,948)
<b>NET SURPLUS FOR THE YEAR AFTER TAX</b>		5,217	2,792	2,873	871
<b>Other Comprehensive Income</b>					
Movement in cash flow hedge reserve		(63)	62	(73)	73
Translation of foreign operations		(145)	-	-	-
<b>Other Comprehensive Income for the Year Net of Tax</b>		(208)	62	(73)	73
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX</b>		5,009	2,854	2,800	944
Net surplus for the year is attributable to:					
Members of the parent entity		5,326	2,667	2,873	871
Non controlling interest	20	(109)	125	-	-
		5,217	2,792	2,873	871
Total comprehensive income is attributable to:					
Members of the parent entity		5,118	2,729	2,800	944
Non controlling interest	20	(109)	125	-	-
		5,009	2,854	2,800	944
<b>Earnings per share:</b>					
Basic (cents per share)	5	16.6	8.5		
Diluted (cents per share)	5	16.6	8.5		
<b>Net tangible assets per ordinary share:</b>					
Basic (cents per share)	5	63.3	47.3		
Diluted (cents per share)	5	63.3	47.3		

# STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 August 2011

Group		Fully Paid Ordinary Shares \$'000s	Retained Earnings \$'000s	Cash Flow Hedge Reserve \$'000s	Foreign Currency Translation Reserve \$'000s	Non Controlling Interest \$'000s	Total \$'000s
<b>Balance at 1 September 2009</b>		11,781	7,597	-	-	(140)	19,238
Net surplus for the year after tax		-	2,667	-	-	125	2,792
Other comprehensive income for the year net of tax		-	-	62	-	-	62
Dividends paid (2.25 cents per share)		-	(681)	-	-	-	(681)
<b>Balance at 31 August 2010</b>		11,781	9,583	62	-	(15)	21,411
Net surplus/(deficit) for the year after tax		-	5,326	-	-	(109)	5,217
Other comprehensive income for the year net of tax		-	-	(63)	(145)	-	(208)
Issue of ordinary shares under rights issue	19	9,534	-	-	-	-	9,534
Share issue costs	19	(251)	-	-	-	-	(251)
Issue of ordinary shares under dividend reinvestment plan	19	527	-	-	-	-	527
Dividends paid (6.00 cents per share)		-	(1,885)	-	-	-	(1,885)
Acquisition of subsidiary	23	-	-	-	-	1,439	1,439
<b>Balance at 31 August 2011</b>		21,591	13,024	(1)	(145)	1,315	35,784

Parent		Fully Paid Ordinary Shares \$'000s	Retained Earnings \$'000s	Cash Flow Hedge Reserve \$'000s	Foreign Currency Translation Reserve \$'000s	Non Controlling Interest \$'000s	Total \$'000s
<b>Balance at 1 September 2009</b>		11,781	4,330	-	-	-	16,111
Net surplus for the year after tax		-	871	-	-	-	871
Other comprehensive income for the year net of tax		-	-	73	-	-	73
Dividends paid (2.25 cents per share)		-	(681)	-	-	-	(681)
<b>Balance at 31 August 2010</b>		11,781	4,520	73	-	-	16,374
Net surplus for the year after tax		-	2,873	-	-	-	2,873
Other comprehensive income for the year net of tax		-	-	(73)	-	-	(73)
Issue of ordinary shares under rights issue	19	9,534	-	-	-	-	9,534
Share issue costs	19	(251)	-	-	-	-	(251)
Issue of ordinary shares under dividend reinvestment plan	19	527	-	-	-	-	527
Dividends paid (6.00 cents per share)		-	(1,885)	-	-	-	(1,885)
<b>Balance at 31 August 2011</b>		21,591	5,508	-	-	-	27,099



# BALANCE SHEET

As at 31 August 2011

		Group		Parent	
	Note	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		3,524	-	1,785	-
Trade debtors	6	8,644	6,555	2,406	2,767
Other financial assets	7	1,189	2,857	1,042	2,845
Deposit on purchase of business	21	293	-	293	-
Sundry debtors		511	325	-	136
Inventories	8	4,890	3,487	882	349
Receivable from joint ventures and associates	25	677	1,738	677	1,738
Contract work in progress	9	3,511	2,554	3,246	3,434
		23,239	17,516	10,331	11,269
<b>NON CURRENT ASSETS</b>					
Property, plant and equipment	10	10,474	10,409	9,102	9,307
Investment in joint ventures and associates	11	224	192	115	115
Other financial assets	7	238	77	238	77
Goodwill	12	10,452	6,607	908	-
Deferred tax asset	3	419	-	-	-
Intangible assets	13	177	-	-	-
Receivable from joint ventures and associates	25	1,910	1,777	1,910	1,777
Investment in subsidiaries	24	-	-	4,423	10
Receivable from subsidiary companies	24	-	-	6,218	1,964
		23,894	19,062	22,914	13,250
<b>TOTAL ASSETS</b>		47,133	36,578	33,245	24,519
<b>CURRENT LIABILITIES</b>					
Net overdraft		-	325	-	859
Trade creditors and accruals	15	5,115	4,571	2,120	2,001
Other financial liabilities	17	901	2,638	842	2,621
Employee entitlements		2,521	1,755	1,518	1,236
Provision for warranty	18	500	350	350	200
Bank loans	14	-	646	-	-
Taxation payable		1,295	899	16	230
		10,332	11,184	4,846	7,147
<b>NON CURRENT LIABILITIES</b>					
Other financial liabilities	17	300	30	238	30
Employee entitlements		717	241	698	224
Bank loans	14	-	3,206	-	-
Deferred tax liability	3	-	506	364	744
		1,017	3,983	1,300	998
<b>OWNERS EQUITY</b>					
Share capital	19	21,591	11,781	21,591	11,781
Retained earnings		13,024	9,583	5,508	4,520
Cash flow hedge reserve		(1)	62	-	73
Foreign currency translation reserve		(145)	-	-	-
Equity attributable to equity holders of the parent		34,469	21,426	27,099	16,374
Non controlling interest	20	1,315	(15)	-	-
<b>TOTAL EQUITY</b>		35,784	21,411	27,099	16,374
<b>TOTAL LIABILITIES &amp; OWNERS EQUITY</b>		47,133	36,578	33,245	24,519

# STATEMENT OF CASHFLOWS

For the Year Ended 31 August 2011

		Group		Parent	
	Note	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Cash was provided from / (applied to):</b>					
Receipts from operations		52,571	44,525	26,281	22,990
Realised fair value gain on foreign exchange derivatives		3,626	-	3,626	-
Interest received		103	14	83	-
Net GST paid		(716)	(2)	(242)	(96)
Payments to suppliers and employees		(49,330)	(38,781)	(23,665)	(21,992)
Interest paid		(519)	(413)	(316)	(146)
Research and development tax credits received		-	60	-	-
Taxation paid		(2,354)	(899)	(1,671)	(897)
<b>Net cash inflow / (outflow) from operating activities</b>	27	3,381	4,504	4,096	(141)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>Cash was provided from / (applied to):</b>					
Purchase of property, plant and equipment		(1,062)	(1,006)	(502)	(219)
Sale of property, plant and equipment		166	50	53	50
Advances from/(to) subsidiaries		-	-	(4,254)	3,194
Purchase of business assets		(3,535)	-	(965)	-
Deposit paid on purchase of business		(293)	-	(293)	-
Advances from/(to) joint ventures and associates		928	(1,203)	928	(1,203)
Purchase of subsidiary		-	-	(4,411)	-
Repayment of advance to Employee Share Purchase Scheme		67	53	67	53
<b>Net cash inflow / (outflow) from investing activities</b>		(3,729)	(2,106)	(9,377)	1,875
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>Cash was provided from / (applied to):</b>					
Proceeds from borrowings		4,596	-	4,472	-
Repayment of borrowings		(8,324)	(3,577)	(4,472)	(2,923)
Dividends paid		(1,885)	(681)	(1,885)	(681)
Issue of share capital net of issue costs		9,810	-	9,810	-
<b>Net cash inflow / (outflow) from financing activities</b>		4,197	(4,258)	7,925	(3,604)
Net increase/(decrease) in cash held		3,849	(1,860)	2,644	(1,870)
Add cash and cash equivalents at start of period		(325)	1,535	(859)	1,011
<b>Balance at end of period</b>		3,524	(325)	1,785	(859)
<b>COMPRISED OF:</b>					
Cash and bank balances		3,524	534	1,785	-
Bank overdraft and short term money market borrowings		-	(859)	-	(859)
Cash and cash equivalents		3,524	(325)	1,785	(859)

Cash and cash equivalents include cash on hand and in banks, both in New Zealand and overseas, and investments in money market instruments, net of outstanding overdrafts and short term money market borrowings.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 1. SUMMARY OF ACCOUNTING POLICIES

### Statement of Compliance

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

The Group is a profit oriented entity, registered in New Zealand under the Companies Act 1993. The Group is an issuer for the purposes of the Financial Reporting Act 1993 and its annual financial statements comply with that Act.

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

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("NZ GAAP"). 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 5 October 2011.

### 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 2011 and the comparative information presented in these financial statements for the year ended 31 August 2010, the Group's comparative financial statements.

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

The information is presented in thousands of New Zealand dollars.

### Critical Judgements, Estimates and Assumptions

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management 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** - The estimation of percentage of completion relies on management estimating future time and costs to complete long term contracts. If the actual time and costs incurred to complete the long term contracts differ from the estimates completed by management, the Directors could be over or under estimating the percentage of completion on the project, and consequently sales and profit to date may also be over or under estimated.
- **Tax losses** - The recognition of a deferred tax asset arising from current and prior year tax losses relies on management estimating that sufficient future taxable amounts will be available against which unused tax losses can be utilised and upon maintaining at least minimum levels of shareholder continuity from the date the tax loss was incurred to the date of utilisation. If insufficient future taxable amounts are available the Directors could be overstating the deferred tax asset and consequently tax paid profit to date may also be overstated.
- **Provisions** - Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.  
The amount recognised as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. If actual time and costs incurred to complete the obligation differ from the estimates completed by management, the Directors could be over or under estimating the provision, and consequently expenses and profit to date may be under or over estimated.
- **Fair values on acquisition** - The determination of fair values for assets and liabilities (both tangible and intangible) acquired in a business combination relies on management estimating the recoverable amounts of these assets and liabilities. If actual recoverable amounts at the time of acquisition differ from the estimates completed by management, the Directors could be over or under estimating the fair values of assets and liabilities acquired.
- **Goodwill impairment** - 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 expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 1. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

- Recoverability of advance to Robotic Technologies Limited - The recoverability of the advance to joint venture company, Robotic Technologies Limited, is dependent on Robotic Technologies Limited continuing to trade as a going concern. If Robotic Technologies Limited is unable to trade in the future as a going concern and is unable to repay its shareholder advances, the Directors could be over-estimating the recoverable amount of the advance.

The principal accounting policies applied in the preparation of the financial report are set out below. These policies have been consistently applied unless otherwise stated.

### Consolidation of Subsidiaries

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 IAS-27 "Consolidated and Separate Financial Statements". Consistent accounting policies are employed in the preparation and presentation of the Group financial statements.

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

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

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

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

In the Company's financial statements, investments in subsidiaries, joint ventures and associates are recognised at their cost, less any adjustment for impairment.

### Goodwill

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.

### Investments in Associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over these policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the Group Balance Sheet at cost as adjusted for post acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. Losses in an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

### Interests in Joint Ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate legal entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS-5 "Non Current Assets Held for Sale and Discontinued Operations". Under the equity method, the investment in jointly controlled entities carried in the balance sheet at cost are adjusted for post acquisition changes in the Group's share of net assets of the jointly controlled entity, less any impairment in the value of the individual investments.

Interests in jointly controlled entities are recognised in the Parent company's financial statements using the cost method.

### Revenue Recognition

Profit on long term contracts is accounted for using the percentage of completion method. At balance date an assessment is made of the percentage of completion and costs associated with the work done. Included in sales is the value attributed to work completed, which includes direct costs, overhead and profit. Provision is made for estimated future losses on the entire contract from the date that it is recognised that a contract loss may be incurred.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 1. SUMMARY OF ACCOUNTING POLICIES (Continued)

### **Leased Assets**

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

### **Group Entity as Lessor**

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

### **Group Entity as Lessee**

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

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

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

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

### **Taxation**

#### **Current Tax**

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

#### **Deferred Tax**

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 directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

### **GST**

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

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

### **Inventories**

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.

### **Contract Work in Progress**

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

### **Financial Instruments**

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

#### **(a) Cash & cash equivalents**

Cash and cash equivalents comprise 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 changes in value.

#### **(b) Trade debtors**

Trade debtors are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 1. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

### (c) Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received.

### (d) Trade creditors

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

### (e) Derivative Financial Instruments

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

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

The Group entity designates certain derivatives as hedges of the fair value of firm commitments (fair value hedge) or as hedges of forecast future sales (cash flow hedge).

#### Fair Value Hedge

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

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

#### Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated as a separate component of equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the other expenses line.

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

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the

gains and losses previously recognised in the hedging reserve are reclassified from equity and included in the initial measurement of the cost of the asset or liability (as a reclassification adjustment).

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.

### (f) Borrowings

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

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

### Employee Benefits

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

Provision made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

### Property, Plant and Equipment

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 provided on property, plant and equipment.

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 and vehicles	1 -13 years



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 1. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

### Research and Development Costs

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

### Warranty Provision

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.

### Impairment of Financial Assets

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

Objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past an average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the

impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for doubtful debts. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

### Impairment of Non Financial Assets

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

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

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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

### Cash Flow Statement

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 1. SUMMARY OF ACCOUNTING POLICIES (Continued)

Definition of terms used in the cash flow statement:

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.

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.

### Segment Information

The group has adopted NZ IFRS-8 "Operating Segments". NZ IFRS-8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly

reviewed by the chief operating decision maker (the Board) in order to allocate resources to the segments and to assess its performance.

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

- Standard production equipment
- Automated production systems (designed and manufactured to order)

Other operations include non-trading Group companies.

Information regarding the Group's reportable segments are presented in Note 26.

### Standards and Interpretations In Issue Not Yet Adopted

The following are the new or revised Standards or Interpretations in issue that are not yet required to be adopted by entities preparing financial statements for periods ending on 31 August 2011:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Amendments to NZ IAS 24 'Related Party Disclosures'	1 January 2011	31 August 2012
*Revised NZ IFRS 9 'Financial Instruments' (2010)	1 January 2013	31 August 2014
Amendments to NZ IFRIC 14 'Prepayments of a Minimum Funding Requirement'	1 January 2011	31 August 2012
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2010		
- Improvements to NZ IFRS 7, NZ IAS 1, NZ IAS 34 and NZ IFRIC 13	1 January 2011	31 August 2012
Amendments to NZ IAS 26 'Accounting and Reporting by Retirement Benefit Plans'	1 April 2011	31 August 2012
Amendments to NZ IFRS 7 'Financial Instruments: Disclosures'	1 July 2011	31 August 2012
Amendments to NZ IAS 12 'Income Taxes' - Deferred Tax: Recovery of Underlying Assets	1 January 2012	31 August 2013
Amendments to NZ IFRS 7 – Appendix E	1 April 2011	31 August 2012
NZ IFRS 10 'Consolidated Financial Statements'	1 January 2013	31 August 2014
NZ IFRS 11 'Joint Arrangements'	1 January 2013	31 August 2014
NZ IFRS 12 'Disclosure of Interests in Other Entities'	1 January 2013	31 August 2014
NZ IFRS 13 'Fair Value Measurement'	1 January 2013	31 August 2014
NZ IAS 27 'Separate Financial Statements' (revised 2011)	1 January 2013	31 August 2014
NZ IAS 28 'Investments in Associates and Joint Ventures' (revised 2011)	1 January 2013	31 August 2014
Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards	1 July 2011	31 August 2012
FRS 44 'NZ Additional Disclosures'	1 July 2011	31 August 2012
Amendments to FRS 44 'NZ Additional Disclosures'	1 July 2011	31 August 2012
Amendments to IAS 1 'Presentation of Financial Statements' – Presentation of Items of Other Comprehensive Income	1 July 2012	31 August 2013
Amendments to IAS 19 'Employee Benefits'	1 January 2013	31 August 2014

*\*the revised NZ IFRS 9 adds guidance on the classification and measurement of financial liabilities and derecognition of financial instruments. The effective date remains the same as the previous version of NZ IFRS 9, with earlier adoption permitted.*



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 1. SUMMARY OF ACCOUNTING POLICIES *(Continued)*

### Other Changes to the Standards

Amendments to FRS 43 'Summary Financial Statements' 1 January 2012 31 August 2013

*^^The amendments are not relevant to the annual full financial statements and only relate to the summary financial statements.*

The Standards and Interpretations listed below became mandatory for the year ended 31 August 2011.

1. Improvements to NZ IFRS (2009)
2. Improvements to NZ IFRS (2010) – Improvements to NZ IFRS 3 and NZ IAS 27
3. NZ IFRS 2 Share-based Payment: Group cash-settled Share-based Payment Transactions
4. Amendment to NZ IAS 32 Financial Instruments: Presentation – Classification of Rights Issues
5. NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

## 2. OTHER INCOME AND OPERATING EXPENSES

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>(a) Other income</b>				
Government grants	1,877	18	1,100	-
Interest received	103	14	83	-
Realised fair value gain on foreign exchange derivatives	3,626	-	3,626	-
	5,606	32	4,809	-
<b>(b) Operating expenses</b>				
<i>The surplus is stated after charging:</i>				
Auditors remuneration - audit services	65	52	40	39
- due diligence	31	-	31	-
- taxation services	18	15	18	15
- IT assurance services	12	14	12	14
The auditor of the Group is Deloitte.				
Directors' fees	150	150	150	150
Fair value losses on firm commitments	1,046	2,474	1,050	2,457
Leasing and rental costs	568	420	79	-
<i>and after crediting:</i>				
Fair value gains on derivatives held as fair value hedges	1,046	2,474	1,050	2,457
Unrealised fair value gains on foreign exchange derivatives	323	109	172	103
Gain on sale of property, plant and equipment	41	50	41	50
Foreign exchange gains	56	994	257	1,176

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 3. INCOME TAXES

### (a) Income tax recognised in surplus or deficit

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:

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Net surplus before tax for the period	7,313	5,540	3,950	2,819
Income tax expense calculated at 30%	2,194	1,662	1,185	846
Non deductible expenses/(non assessable income)	15	(26)	12	-
Over provision of income tax in previous year	(140)	(22)	(141)	(22)
Deferred tax adjustment on buildings	-	1,098	-	1,098
Effect of changes in tax rate	27	36	21	26
Taxation expense	2,096	2,748	1,077	1,948
Represented by:				
Current tax	2,750	1,831	1,457	1,135
Deferred tax – operating activities	(654)	(181)	(380)	(285)
Deferred tax - adjustment on buildings	-	1,098	-	1,098
	2,096	2,748	1,077	1,948

The prima facie tax rate used in the above reconciliation is the corporate tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law for the 2011 income tax year. In the 2010 year, deferred tax was recalculated at the corporate tax rate of 28% applying from the 2012 income tax year onwards.

### (b) Deferred tax balances

	Group			
2011	Opening Balance \$'000	Charged to Income \$'000	Acquisition of Subsidiary \$'000	Closing Balance \$'000
<b>Gross deferred tax assets:</b>				
Trade debtors	11	-	-	11
Inventories	66	(23)	-	43
Other financial assets	137	(90)	-	47
Employee entitlements	426	151	19	596
Provisions	210	266	-	476
Tax losses	96	257	304	657
	946	561	323	1,830
<b>Gross deferred tax liabilities:</b>				
Property, plant and equipment	1,431	(91)	52	1,392
Prepayments	21	(2)	-	19
	1,452	(93)	52	1,411
	(506)	654	271	419



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 3. INCOME TAXES *(Continued)*

	Group			
	Opening Balance \$'000	Charged to Income \$'000	Changes in Tax Rate \$'000	Closing Balance \$'000
<b>2010</b>				
<b>Gross deferred tax assets:</b>				
Trade debtors	12	-	(1)	11
Inventories	80	(8)	(6)	66
Other financial assets	41	106	(10)	137
Employee entitlements	353	102	(29)	426
Provisions	135	90	(15)	210
Tax losses	195	(98)	(1)	96
	816	192	(62)	946
<b>Gross deferred tax liabilities:</b>				
Property, plant and equipment	391	1,142	(102)	1,431
Prepayments	14	8	(1)	21
	405	1,150	(103)	1,452
	411	(958)	41	(506)

	Parent Company		
	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
<b>2011</b>			
<b>Gross deferred tax assets:</b>			
Trade debtors	11	-	11
Inventories	29	26	55
Other financial assets	137	(90)	47
Employee entitlements	335	118	453
Provisions	196	238	434
	708	292	1,000
<b>Gross deferred tax liabilities:</b>			
Property, plant and equipment	1,431	(86)	1,345
Prepayments	21	(2)	19
	1,452	(88)	1,364
	(744)	380	(364)

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 3. INCOME TAXES (Continued)

2010	Parent Company			
	Opening Balance \$'000	Charged to Income \$'000	Changes in Tax Rate \$'000	Closing Balance \$'000
<b>Gross deferred tax assets:</b>				
Trade debtors	12	-	(1)	11
Inventories	-	31	(2)	29
Other financial assets	41	106	(10)	137
Employee entitlements	298	60	(23)	335
Provisions	90	120	(14)	196
Tax losses	33	(33)	-	-
	474	284	(50)	708
<b>Gross deferred tax liabilities:</b>				
Property, plant and equipment	391	1,142	(102)	1,431
Prepayments	14	8	(1)	21
	405	1,150	(103)	1,452
	69	(866)	53	(744)

### (c) Imputation credit account balances

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Balance at beginning of financial year	2,923	2,358	2,918	2,355
Tax paid	2,342	905	1,667	903
Attached to dividends paid	(808)	(334)	(808)	(334)
Tax refunds received	-	(6)	-	(6)
Balance at end of financial year	4,457	2,923	3,777	2,918

Imputation credits available directly and indirectly to shareholders of the parent company, through:

Parent company	3,777	2,918
Subsidiaries	680	5
	4,457	2,923

## 4. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Short term benefits - employees	1,836	1,278	1,193	936
Short term benefits – Directors *	579	512	579	512
Termination benefits - employees	25	-	-	-
Long term benefits – employees	180	-	111	-
Long term benefits – Directors *	28	-	28	-
	2,648	1,790	1,911	1,448

\* Includes executive and non-executive Directors



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 5. EARNINGS & NET TANGIBLE ASSETS PER SHARE

	Group	
	2011 Cents per Share	2010 Cents per Share
<b>Earnings per share from continuing operations</b>		
Basic	16.6	8.5
Diluted	16.6	8.5
<b>Net tangible assets per ordinary share</b>		
Basic	63.3	47.3
Diluted	63.3	47.3

	Group	
	2011 \$'000s	2010 \$'000s
Net surplus for the year used in the calculation of basic and diluted earnings per share from continuing operations	5,326	2,667
Net tangible assets (excluding goodwill and intangible assets)	25,155	14,804

	Group	
	2011 000s	2010 000s
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share from continuing operations	32,178	31,322
Ordinary shares at year end used in the calculation of net tangible assets per ordinary share	39,722	31,322

## 6. TRADE DEBTORS

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Trade debtors	8,684	6,595	2,446	2,807
Allowance for doubtful debts (i) (ii)	(40)	(40)	(40)	(40)
	8,644	6,555	2,406	2,767

The credit period on sales of goods ranges from 30 to 90 days depending on the terms negotiated by the customer for large contracts. No interest is charged on the trade debtors.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 6. TRADE DEBTORS *(Continued)*

### (i) Allowance for doubtful debts

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Balance at beginning of financial year	40	40	40	40
Impairment loss recognised on trade debtors	-	-	-	-
Balance at end of financial year	40	40	40	40

In determining the recoverability of trade debtors, the Group considers any change in the credit quality of the trade debtor from the date credit was initially granted up to the reporting date. The Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

### (ii) Ageing of doubtful debts

90 days +	40	40	40	40
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### (iii) Past due but not impaired

Included in the Group's trade debtors are debtors with a carrying amount of \$4,196,000 (2010: \$2,544,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are considered recoverable.

Ageing of past due but not impaired:

30 – 60 days	2,452	1,015	1,388	19
60 – 90 days	729	898	83	3
90 days +	1,015	631	28	3
	4,196	2,544	1,499	25

## 7. OTHER FINANCIAL ASSETS

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Advance to Employee Share Purchase Scheme (i)	28	95	28	95
Foreign currency forward contracts held as effective fair value hedges (ii)	1,046	2,474	1,050	2,457
Foreign currency forward contracts held as cash flow hedges (ii)	-	62	-	73
Foreign exchange derivatives	323	109	172	103
Export Credit Office funding (iii)	30	194	30	194
	1,427	2,934	1,280	2,922



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 7. OTHER FINANCIAL ASSETS *(Continued)*

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Represented by:				
<b>Current financial assets</b>				
Advance to employee share purchase scheme	28	48	28	48
Foreign currency forward contracts held as effective fair value hedges	808	2,474	812	2,457
Foreign currency forward contracts held as cash flow hedges	-	62	-	73
Foreign exchange derivatives	323	109	172	103
Export Credit Office funding	30	164	30	164
	1,189	2,857	1,042	2,845
<b>Non current financial assets</b>				
Foreign currency forward contracts held as effective fair value hedges	238	-	238	-
Advance to employee share purchase scheme	-	47	-	47
Export Credit Office funding	-	30	-	30
	238	77	238	77

- (i) Interest free, repayable on demand. The current/non-current split is shown on the basis of expected maturity.
- (ii) Designated and effective hedging instrument
- (iii) The Group has provided long term financing to a customer whereby the customer makes payment for equipment purchased over six years. The discounted future payments have been sold to the ANZ National Bank Limited using a bill of exchange facility. An arrangement with the New Zealand Export Credit Office guarantees 90% of the customer's future payments. Utilising the guarantee the Group has discounted the future payments due from the customer and applied the receipt from the ANZ National Bank Limited to the outstanding debtor. If the customer defaults on its payments, the Group's maximum liability is 10% of the outstanding balance at that time. The total outstanding balance is \$300,000 (2010: \$1,940,000). The maximum exposure calculated at 10% of the outstanding balance at 31 August 2011 is \$30,000 (2010: \$194,000) and will be fully repaid during the next financial year.

## 8. INVENTORIES

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Raw materials	3,303	2,981	101	57
Work in progress	1,100	360	332	292
Finished goods	487	146	449	-
	4,890	3,487	882	349

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 9. CONTRACT WORK IN PROGRESS

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Costs incurred and estimated earnings on uncompleted contracts	54,933	33,465	47,993	30,400
Progress claims received or receivable	(51,422)	(30,911)	(44,747)	(26,966)
	3,511	2,554	3,246	3,434
Represented by:				
Sales recognised to be recovered by invoices	7,081	5,065	5,066	4,131
Contracts invoiced in advance of sales recognised	(3,570)	(2,511)	(1,820)	(697)
	3,511	2,554	3,246	3,434

## 10. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Freehold Land at Cost \$'000s	Freehold Buildings at Cost \$'000s	Plant & Vehicles at Cost \$'000s	Total \$'000s
<b>Gross carrying amount</b>				
As at 31 August 2009	2,133	6,278	13,519	21,930
Additions	-	9	997	1,006
Disposals	-	-	(454)	(454)
<b>As at 31 August 2010</b>	2,133	6,287	14,062	22,482
Acquisitions through business combinations	-	-	138	138
Additions	-	70	992	1,062
Disposals	-	-	(264)	(264)
<b>As at 31 August 2011</b>	2,133	6,357	14,928	23,418
<b>Accumulated depreciation/ amortisation and impairment</b>				
As at 31 August 2009	-	389	11,180	11,569
Disposals	-	-	(454)	(454)
Depreciation expense	-	190	768	958
<b>As at 31 August 2010</b>	-	579	11,494	12,073
Disposals	-	-	(139)	(139)
Depreciation expense	-	200	810	1,010
<b>As at 31 August 2011</b>	-	779	12,165	12,944
<b>Net book value</b>				
As at 31 August 2010	2,133	5,708	2,568	10,409
As at 31 August 2011	2,133	5,578	2,763	10,474

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Parent			
	Freehold Land at Cost \$'000s	Freehold Buildings at Cost \$'000s	Plant & Vehicles at Cost \$'000s	Total \$'000s
<b>Gross carrying amount</b>				
As at 31 August 2009	2,133	6,278	12,580	20,991
Additions	-	9	210	219
Disposals	-	-	(454)	(454)
<b>As at 31 August 2010</b>	<b>2,133</b>	<b>6,287</b>	<b>12,336</b>	<b>20,756</b>
Acquired through business combinations	-	-	53	53
Additions	-	70	432	502
Disposals	-	-	(121)	(121)
<b>As at 31 August 2011</b>	<b>2,133</b>	<b>6,357</b>	<b>12,700</b>	<b>21,190</b>
<b>Accumulated depreciation/amortisation and impairment</b>				
As at 31 August 2009	-	389	10,784	11,173
Disposals	-	-	(454)	(454)
Depreciation expense	-	190	540	730
<b>As at 31 August 2010</b>	<b>-</b>	<b>579</b>	<b>10,870</b>	<b>11,449</b>
Disposals	-	-	(107)	(107)
Depreciation expense	-	200	546	746
<b>As at 31 August 2011</b>	<b>-</b>	<b>779</b>	<b>11,309</b>	<b>12,088</b>
<b>Net book value</b>				
As at 31 August 2010	2,133	5,708	1,466	9,307
As at 31 August 2011	2,133	5,578	1,391	9,102

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Aggregate depreciation allocated, whether recognised as an expense or as part of the carrying amount of other assets during the year:				
Freehold buildings	200	190	200	190
Plant, equipment and vehicles	810	768	546	540
	1,010	958	746	730

### Assets Pledged as Security

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



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Country of Incorporation	Ownership Interest		Carrying Value	
		2011 %	2010 %	2011 \$'000s	2010 \$'000s
Joint Ventures					
Robotic Technologies Limited (i)	New Zealand	50	50	190	66
Scott Technology Euro Limited (ii)	Ireland	50	50	28	126
NS Innovations Pty Limited (iii)	Australia	50	50	-	-
Associates					
Robot Vision Lab Limited (iv)	New Zealand	40	-	6	-
Balance at end of financial year				224	192

- (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. There are several intangible and development assets held within RTL. The Group's 50% interest in these assets at 31 August 2011 is \$1,201,000 (2010 \$1,103,000). The development assets comprise automated boning room equipment located at various sites and the intangible assets represent part of the recent investment in commercialising technologies now being made market ready. Scott Technology Limited's share of RTL's net surplus was \$124,000, (2010: \$13,000).
- (ii) Scott Technology Euro Limited (STEL) is Scott Technology Limited's European sales agency 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 deficit was \$78,000, (2010: share of surplus \$76,000).
- (iii) NS Innovations Pty Limited (NSIL) is a joint venture between Scott Technology Limited and Northern Co-Operative Meat Company Limited of Australia. NSIL was formed in August 2009 and has a balance date of 31 August. NSIL's principal activity is the marketing and development of (primarily) beef meat processing equipment and the management of the intellectual property associated with these developments. Scott Technology Limited's share of NSIL's net deficit was \$Nil (2010: \$Nil).
- (iv) Robot Vision Lab Limited (RVL) was established in the 2011 financial year to provide specialist vision and robotics services to its customers. Scott Technology Limited's 40% shareholding in RVL provides the Group with preferential access to RVL's services. Scott Technology Limited's share of RVL's net surplus was \$6,000 (2010: \$Nil).

### Carrying value of equity accounted investments:

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Balance at beginning of financial year	192	103	115	115
Share of net surplus	53	89	-	-
Translation of foreign investments	(21)	-	-	-
Balance at end of financial year	224	192	115	115

### Summarised statement of comprehensive income of joint ventures and associates:

	Group	
	2011 \$'000s	2010 \$'000s
Income	1,757	1,807
Expenses	(1,648)	(1,629)
Net surplus	109	178
Group share of net surplus	53	89

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

### Summarised balance sheets of joint ventures and associates:

	Group	
	2011 \$'000s	2010 \$'000s
Current assets	3,077	3,945
Non current assets	4,616	5,138
Current liabilities	(968)	(523)
Non current liabilities	(6,273)	(8,176)
Net assets	452	384
Group share of net assets	224	192

RTL, STEL, NSIL and RVL do not have any contingent assets, contingent liabilities or commitments for capital expenditure. The Group is not jointly and severally liable for any of RTL's, STEL's, NSIL's or RVL's liabilities.

## 12. GOODWILL

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Gross carrying amount				
Balance at beginning of financial year	6,607	6,607	-	-
Additional amounts recognised from business combinations occurring during the period	3,845	-	-	-
Acquisition of business during year	-	-	908	-
Balance at end of financial year	10,452	6,607	908	-

There has been no impairment recognised during the year (2010: \$Nil).

### Allocation of goodwill to cash-generating units

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

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Mining	7,515	6,607	908	-
High temperature superconductors	2,937	-	-	-
	10,452	6,607	908	-

### Mining

The recoverable amount of the Mining 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 a discount rate of 12.3% p.a (2010: 12.2%).

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

### High Temperature Superconductors

At the time of acquisition, Scott Technology determined the forecast cash flows of the High Temperature Superconductors cash-generating unit. The cash flows supported the carrying value of the goodwill.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 13. INTANGIBLE ASSETS

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>Gross carrying amount</b>				
Balance at beginning of financial year	-	-	-	-
Acquisitions through business combinations	185	-	-	-
Balance at end of financial year	185	-	-	-
<b>Accumulated amortisation and impairment</b>				
Balance at beginning of financial year	-	-	-	-
Amortisation expense	8	-	-	-
Balance at end of financial year	8	-	-	-
<b>Carrying amount</b>				
As at 31 August 2010	-	-	-	-
As at 31 August 2011	177	-	-	-

Intangible assets comprise intellectual property associated with current leads which were acquired on the purchase of the HTS-110 Limited subsidiary. Intangible assets are being amortised over a remaining useful life of eight years. The amortisation expense has been included in the line item "depreciation and amortisation" in the Statement of Comprehensive Income.

## 14. BANK FACILITIES

The Group has a working capital facility from ANZ National Bank Limited with a total limit of \$6,000,000 (2010: \$5,000,000). As at 31 August 2011 the amount used was \$Nil (2010: \$859,000).

The Group has a Stock Exchange Bond facility, a facility in respect of the Export Credit Office financing and a secured bill acceptance and performance bond facility from ANZ National Bank Limited with a total limit of \$10,375,000 (2010: \$10,375,000). As at 31 August 2011 the amount used was \$1,582,000 (2010: \$1,409,000). Refer note 17, Other Financial Liabilities, and note 22, Contingent Liabilities.

The Group has a secured credit card facility from ANZ National Bank Limited with a total limit of \$600,000 (2010: \$600,000) and Rocklabs Limited has a secured credit card facility from Bank of New Zealand Limited of \$100,000 (2010: \$100,000). As at 31 August 2011 the total amount used was \$61,000 (2010: \$69,000). The total amount used is included in trade creditors and accruals.

During the year the Group undertook bank borrowings to assist with the acquisition of the reference materials business and a 50.65% shareholding in HTS-110 Limited. These loans, together with existing borrowings for the acquisition of the Rocklabs business in 2008, were repaid in full in August 2011 from the proceeds of a rights issue.

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

## 15. TRADE CREDITORS AND ACCRUALS

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Trade creditors	2,810	3,638	1,114	1,445
Accruals	2,305	933	1,006	556
	5,115	4,571	2,120	2,001



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 16. LEASES

### Non cancellable operating lease payments

Operating leases relate to warehouse facilities with original lease terms of between three to five years and an option to extend for a further three years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
No longer than 1 year	571	439	90	-
Longer than 1 year and not longer than 2 years	559	429	90	-
Longer than two years and not longer than 5 years	1,575	1,246	167	-
Longer than 5 years	1,517	1,916	-	-
	4,222	4,030	347	-

## 17. OTHER FINANCIAL LIABILITIES

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>At fair value:</b>				
Fair value hedge of open firm commitments	1,046	2,474	1,050	2,457
Foreign currency forward contracts held as cashflow hedges	1	-	-	-
<b>At amortised cost:</b>				
Export Credit Office financing (i)	30	194	30	194
Industry development loan (ii)	124	-	-	-
	1,201	2,668	1,080	2,651

Represented by:

### Current financial liabilities

Fair value hedge of open firm commitments	808	2,474	812	2,457
Export Credit Office financing	30	164	30	164
Foreign currency forward contracts held as cashflow hedges	1	-	-	-
Industry development loan	62	-	-	-
	901	2,638	842	2,621

### Non current financial liabilities

Export Credit Office financing	-	30	-	30
Fair value hedge of firm commitments	238	-	238	-
Industry development loan	62	-	-	-
	300	30	238	30

(i) Refer note 7

(ii) An industry marketing and development organisation has provided an interest free loan to a subsidiary to assist with the commercialisation of a product. The loan is repayable over 18 months following the first commercial sale or upon termination of the project.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 18. PROVISION FOR WARRANTY

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Balance at beginning of financial year	350	350	200	200
Additional provisions recognised	376	296	260	265
Reductions arising from payments/other sacrifices of future economic benefits	(226)	(296)	(110)	(265)
Balance at end of financial year	500	350	350	200

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.

## 19. SHARE CAPITAL

	Group & Parent		Group & Parent	
	2011 Number	2010 Number	2011 \$'000s	2010 \$'000s
Fully paid ordinary shares at beginning of financial year	31,322,369	28,474,743	11,781	11,781
1 for 10 non-taxable bonus issue	-	2,847,626	-	-
Rights issue (at \$1.20 per share)	7,945,151	-	9,534	-
Less share issue costs	-	-	(251)	-
Shares issue under dividend reinvestment plan	454,138	-	527	-
Balance at end of financial year	39,721,658	31,322,369	21,591	11,781

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

## 20. NON CONTROLLING INTEREST

	Group	
	2011 \$'000s	2010 \$'000s
Balance at beginning of financial year	(15)	(140)
Share of net surplus/(deficit) for the year	(109)	125
Acquisition of subsidiary	1,439	-
Balance at end of financial year	1,315	(15)

## 21. COMMITMENTS FOR EXPENDITURE

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Commitments for future capital expenditure resulting from contracts entered into for:				
Proposed acquisition of business (i)	683	1,500	683	-
Purchase of plant and equipment	180	-	110	-
	863	1,500	793	-

- (i) As at 31 August 2011 the Company had entered into an agreement to acquire a 75% shareholding in a Chinese manufacturing business which was subject to consent by various Chinese authorities. A 30% deposit had been paid as at 31 August 2011, but consent had not been received from the Chinese authorities. Accordingly, the company did not have control of the business at 31 August 2011. The capital commitment of \$683,000 represents the balance of the acquisition price which will be payable when all necessary consents are received and control is achieved.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 22. CONTINGENT LIABILITIES

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Payment guarantees and performance bonds	1,489	635	141	194
Stock Exchange bond	75	75	75	75
Maximum contract penalty clause exposure	1,507	1,334	1,507	1,334
Guarantee of joint venture's banking facilities	750	750	750	750
Guarantee of industry loan	124	-	124	-

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 the ANZ National Bank 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.

Scott Technology Limited has provided a guarantee of up to \$750,000 in respect of joint venture borrowings by Robotic Technologies Limited from Bank of New Zealand Limited. These borrowings totalled \$940,000 as at 31 August 2011 (2010: \$1.29 million).

Scott Technology Limited has provided a guarantee of up to \$124,000 in respect of an industry development loan to a subsidiary.

## 23. ACQUISITION OF SUBSIDIARIES & BUSINESSES

Name	Principal Activity	Date of Acquisition	Proportion of Shares/ Business Acquired	Cost of Acquisition \$000
Malcolm Smith Reference Materials	Manufacturer of reference materials for precious metals	1/11/2010	100%	965
HTS-110 Limited	Develops, designs and manufactures high temperature superconductor products	31/3/2011	50.65%	4,411



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 23. ACQUISITION OF SUBSIDIARIES & BUSINESSES (Continued)

### (b) Analysis of Assets & Liabilities Acquired

	Malcolm Smith Reference Materials			HTS - 110 Limited			Total
	Book Value \$'000s	Fair Value Adjustment \$'000s	Fair Value on Acquisition \$'000s	Book Value \$'000s	Fair Value Adjustment \$'000s	Fair Value on Acquisition \$'000s	Fair Value on Acquisition \$'000s
Assets & Liabilities							
Cash & bank balances	-	-	-	1,841	-	1,841	1,841
Trade & other receivables	16	-	16	923	(253)	670	686
Inventories	-	-	-	245	-	245	245
Contract work in progress	-	-	-	1,156	(732)	424	424
Intangible assets	-	-	-	185	-	185	185
Plant and equipment	53	-	53	85	-	85	138
Deferred tax asset	-	-	-	-	271	271	271
Current liabilities							
Trade & other payables	(12)	-	(12)	(676)	(112)	(788)	(800)
Other financial liabilities	-	-	-	(3)	(17)	(20)	(20)
Total assets & liabilities	57	-	57	3,756	(843)	2,913	2,970
Non controlling interest on acquisition	-	-	-	(1,854)	415	(1,439)	(1,439)
Goodwill on acquisition	-	908	908	-	2,937	2,937	3,845
Cost of acquisition	57	908	965	1,902	2,509	4,411	5,376

### (c) Cost of Acquisition

The cost of acquisition of both Malcolm Smith Reference Materials and HTS - 110 Limited was paid in cash.

### (d) Net Cash Outflow on Acquisition

	Group 2011 \$'000s
Total purchase consideration paid in cash	5,376
Less cash and bank balances acquired	(1,841)
Net cash outflow on acquisition	3,535

### (e) Goodwill Arising on Acquisition

The consideration paid for the acquisition of both Malcolm Smith Reference Materials and HTS-110 Limited effectively included amounts in relation to the benefit of expected synergies, revenue growth, current product development and knowhow, future marketing development and their assembled workforces. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

### (f) Impact of Acquisition on the Results of the Group

Included in the Group profit for the year is a net profit after tax of \$503,000 attributable to the additional margin generated by Malcolm Smith Reference Materials (now called Rocklabs Reference Materials), and a net loss after taxation and non controlling interest of \$63,000 attributable to the purchase of HTS-110 Limited.

Had these acquisitions been effected at 1 September 2010, the revenue of the Group from continuing operations would have been \$56.0 million, and the profit for the year after taxation and non controlling interests from continuing operations would have been \$5.4 million. The Directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined Group on an annualised basis and to provide a reference point for comparison in future periods.

In determining the 'pro-forma' revenue and profit of the Group had Malcolm Smith Reference Materials and HTS-110 Limited been acquired at the beginning of the current reporting period, the Directors have:

- Excluded legal costs incurred by HTS-110 Limited preparing the business for sale; and
- Excluded the sale of a previously capitalised asset which was still to be shipped.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 24. SUBSIDIARIES

			Ownership Interest & Voting Rights	
Name of Entity	Balance Date	Country of Incorporation	2011 %	2010 %
Parent Entity				
Scott Technology Limited (i)	31 August	New Zealand		
Subsidiaries				
Scott Systems International Incorporated (ii)	31 August	USA	100	100
Scott Service International Limited (iii)	31 August	New Zealand	100	100
Scott Automation Limited (iv)	31 August	New Zealand	100	100
Betts Engineering Limited (v)	31 August	New Zealand	100	100
Rocklabs Limited (vi)	31 August	New Zealand	100	100
Scott Fabtech Limited (vii)	31 August	New Zealand	100	100
Scott Milktech Limited (viii)	31 March	New Zealand	61	61
Scott Technology Australia Pty Limited (ix)	31 August	Australia	100	100
HTS-110 Limited (x)	31 August	New Zealand	51	-
QMT General Partner Limited (xi)	31 August	New Zealand	93	-
Scott Technology Holdings Limited (v)	31 August	New Zealand	100	-

- (i) Scott Technology Limited is the ultimate parent entity within the Group. Its principal activity is the design and manufacture of automation systems.
- (ii) Scott Systems International Incorporated's principal activity is sales and service.
- (iii) Scott Service International Limited's principal activity is the service and upgrade of Scott equipment worldwide.
- (iv) Scott Automation Limited's principal activity is the design and manufacture of automation systems.
- (v) Non trading subsidiary.
- (vi) Rocklabs Limited's principal activity is the manufacture and sale of automated laboratory sampling equipment for the mining industry.
- (vii) Scott Fabtech Limited's principal activity is metal cutting and fabrication.
- (viii) Scott Milktech Limited's principal activity is the development of automated solutions for the dairy industry.
- (ix) Scott Technology Australia Pty Limited's principal activity is sales and service.
- (x) Scott Technology Limited acquired 50.65% of HTS-110 Limited on 31 March, 2011. HTS-110 Limited develops, designs and manufactures high temperature superconductor equipment.
- (xi) QMT General Partner Limited was incorporated during the year and will be used to hold ownership of the Chinese manufacturing business that was in the process of being acquired at balance date.

	Parent	
	2011 \$'000s	2010 \$'000s
The parent company's investment in subsidiary companies comprises:		
Shares at cost	4,423	10
Amounts owing from subsidiary companies	6,218	1,964
	10,641	1,974

The amounts owing from subsidiary companies are at call and interest free.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 25. RELATED PARTY TRANSACTIONS

The Group owns 50% of Robotic Technologies Limited (RTL), 50% of Scott Technology Euro Limited (STEL) and 61% of Scott Milktech Limited (SML). RTL, STEL, and SML have paid the Group for administration services and for project work undertaken. STEL has received commission payments and RTL has received sales revenue from the Group.

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Project work undertaken by the Group for RTL	1,857	3,845	1,600	3,845
Administration, sales and marketing fees charged by the Group to RTL	36	147	36	147
Sales revenue received by RTL from the Group	416	182	68	-
Project work undertaken by the Group for SML	120	102	120	102
Administration fees charged by the Group to SML	12	12	12	12
Administration fees charged by the Group to STEL	6	6	6	6
Commission received by STEL from the Group	25	158	25	158

Included in trade debtors as at 31 August 2011 is \$Nil (2010: \$3,000) for work undertaken on behalf of SML.

At 31 August 2011 Scott Technology Limited had advanced \$2,372,000 (2010: \$3,494,000) to RTL and \$215,000 to STEL (2010: \$21,000). Advances are unsecured, interest free and repayable on demand.

During the year Scott Technology Limited received capital charges and administration fees totalling \$1,631,000 (2010: \$1,285,000) from 100% owned subsidiary companies.

C C Hopkins and S J McLauchlan are trustees of the Scott Technology Employee Share Purchase Scheme. The balance of the loans owing from the scheme at 31 August 2011 was \$28,000 (2010: \$95,000). During the year 17,014 shares (2010: 3,038 shares) which had not vested with employees were disposed of at market value. In 2009 197,098 shares were issued to the scheme and are being held on trust for employees pending repayment of loans for the shares by the employees over a three year period. These shares have been treated as equity under share capital with a corresponding loan advance to the Scheme.

Rental payments of \$331,000 (2010: \$331,000) were paid to a substantial shareholder, Inchinnam Limited, during the year.

G W Batts is a Director and shareholder of Premidee Limited who provided engineering consulting services to the Group of \$15,000 during the year (2010: \$11,000).

HTS-110 Limited is owned 35.78% by Industrial Research Limited and 13.57% by American Superconductor Corporation Inc. During the five months since Scott Technology Limited's acquisition of a 50.65% shareholding in HTS-110 Limited, HTS-110 Limited purchased \$278,000 of components from American Superconductor Corporation Inc and purchased \$518,000 of components and services from Industrial Research Limited. During the same period HTS-110 Limited received \$895,000 of grant revenue from Industrial Research Limited.

## 26. SEGMENT INFORMATION

### (a) Products & Services from which Reportable Segments Derive Their Revenues

The Group's reportable segments under NZ IFRS-8 are as follows:

- Standard production equipment
- Automated production systems (designed and manufactured to order)

Information regarding the Group's reportable segments is presented below.

### (b) Segment Revenues & Results

The following is an analysis of the Group's revenue and results by reportable segment. Design and manufacturing activities for all segments are undertaken at all of the Group's manufacturing sites (Dunedin, Christchurch, Wellington and Auckland), with projects being allocated to manufacturing sites based on available resources, rather than by segment. The Group does not allocate certain resources and central administration costs by segment for internal reporting purposes. For the purposes of NZ IFRS-8 allocations are based on a combination of revenue contribution by segment, gross margin and senior management's contribution to the segment. These allocations may not result in a meaningful and comparable measure of profitability by segment.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 26. SEGMENT INFORMATION (Continued)

2011	Standard Equipment \$'000s	Automated Equipment \$'000s	Unallocated \$'000s	Total \$'000s
Revenue	21,453	32,150	-	53,603
Segment profit	6,396	4,235	-	10,631
Depreciation and amortisation	(108)	(728)	(182)	(1,018)
Share of profits of joint ventures	-	-	53	53
Interest revenue	16	-	87	103
Central administration costs	-	-	(1,962)	(1,962)
Finance costs	(271)	(65)	(158)	(494)
Net profit before taxation	6,033	3,442	(2,162)	7,313
Taxation expense	(1,729)	(987)	620	(2,096)
Net profit after taxation	4,304	2,455	(1,542)	5,217

2010	Standard Equipment \$'000s	Automated Equipment \$'000s	Unallocated \$'000s	Total \$'000s
Revenue	15,789	30,800	-	46,589
Segment profit	2,979	5,131	-	8,110
Depreciation	(92)	(723)	(143)	(958)
Share of profits of joint ventures	-	-	89	89
Interest revenue	-	-	14	14
Central administration costs	-	-	(1,301)	(1,301)
Finance costs	(267)	-	(147)	(414)
Net profit before taxation	2,620	4,408	(1,488)	5,540
Taxation expense	(780)	(1,313)	(655)	(2,748)
Net profit after taxation	1,840	3,095	(2,143)	2,792

Revenue reported above represents revenue generated from external customers. Inter-segment sales were \$Nil for the year ended 31 August 2011 (2010: \$Nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1. Segment profit represents the profit earned by each segment without allocation of central administration costs, share of profits of joint ventures, investment revenue and finance costs.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 26. SEGMENT INFORMATION *(Continued)*

### (c) Industry Information

The Group focuses its marketing on five principal industries: appliances, meat processing, mining, high temperature superconductor products and other industrial automation. The Group's revenue from external customers by industry is detailed below:

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Appliances	15,596	21,552	13,471	19,662
Meat processing	6,376	4,941	5,170	4,557
Mining	28,407	19,100	5,397	-
High temperature superconductor products	2,334	-	-	-
Other industrial automation	890	996	1,010	996
	53,603	46,589	25,048	25,215

### (d) Geographical Information

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

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
New Zealand (country of domicile)	6,126	5,250	8,607	5,004
North America, including Mexico	15,656	12,938	5,380	7,211
Australia and Pacific Islands	13,056	5,210	4,514	550
South America	6,958	8,017	2,962	4,475
Asia	5,204	4,786	3,585	3,244
Russia and former states	3,807	3,835	-	-
Africa and Middle East	2,121	1,243	-	-
Other Europe	675	5,310	-	4,731
	53,603	46,589	25,048	25,215

There are no significant concentrations of non-current assets in geographical areas outside of New Zealand, the country of domicile.

### (e) Information About Major Customers

Sales to the Group's largest customer account for approximately 9.9% of total Group sales (2010: 14.5%).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 27. NOTES TO THE CASHFLOW STATEMENT

	Group		Parent	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>Net surplus / (deficit) for the year</b>	5,217	2,792	2,873	871
<b>Adjustments for non-cash items:</b>				
Depreciation and amortisation	1,018	958	746	730
Net gain on sale of property, plant and equipment	(41)	(50)	(41)	(50)
Deferred tax, net of asset acquired on purchase of subsidiary	(654)	917	(380)	813
Share of net surplus of joint ventures and associates	(53)	(89)	-	-
<b>Add / (less) movement in working capital:</b>				
Trade debtors	(2,089)	272	361	593
Other financial assets – derivatives	1,214	(155)	1,338	(132)
Sundry debtors	(186)	(106)	136	(136)
Inventories	(1,403)	513	(533)	(98)
Contract work in progress	(957)	(3,047)	188	(3,663)
Taxation payable	396	992	(214)	233
Trade creditors and accruals	544	1,115	119	579
Other financial liabilities – derivatives	(1,428)	(291)	(1,407)	(308)
Employee entitlements	1,242	683	756	427
Warranty provision	150	-	150	-
Working capital relating to business purchase	535	-	4	-
Movement in foreign exchange translation reserve relating to working capital	(124)	-	-	-
<b>Net cash inflow / (outflow) from operating activities</b>	<b>3,381</b>	<b>4,504</b>	<b>4,096</b>	<b>(141)</b>

Under certain debtor financing arrangements entered into by the Group, cashflows are receipted directly by the third party financier to the arrangement. Consequently the Balance Sheet movement related to financial assets and financial liabilities excludes the movements as a result of these non cash transactions.

## 28. FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives

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

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

### (b) 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 2010.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising bank debt, 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 14. 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 28. FINANCIAL INSTRUMENTS (Continued)

### (c) 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.

### (d) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts in New Zealand dollars of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
United States dollar	5,123	5,267	613	241
Euros	837	1,196	-	37
Australian dollars	3,403	1,342	483	1
Japanese yen	24	-	-	-
	9,387	7,805	1,096	279

### (i) Forward foreign exchange contracts

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

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

	Average Exchange Rate		Foreign Currency		NZ\$ Contract Value		Fair Value	
	2011	2010	2011 FC'000s	2010 FC'000s	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>Foreign currency forward contracts held as effective fair value hedges</b>								
<i>Sell United States dollars</i>								
Less than 3 months	0.7421	0.7088	1,250	3,298	1,684	4,653	210	(69)
3 to 6 months	0.7168	0.7040	610	430	850	611	128	(9)
6 to 12 months	0.7357	0.6831	2,600	410	3,534	600	417	6
1 to 2 years	0.7314	-	1,515	-	2,071	-	238	-
			5,975	4,138	8,139	5,864	993	(72)
<i>Sell Euros</i>								
Less than 3 months	0.6082	0.4193	123	795	202	1,896	(6)	455
3 to 6 months	-	0.4087	-	1,730	-	4,233	-	1,084
6 to 12 months	0.5351	0.4179	890	2,125	1,663	5,085	133	1,154
			1,013	4,650	1,865	11,214	127	2,693
<i>Sell Australian dollars</i>								
Less than 3 months	0.8214	0.8037	2,460	1,175	2,995	1,462	(74)	(26)
3 to 6 months	-	0.8119	-	1,172	-	1,443	-	(38)
6 to 12 months	-	0.8172	-	2,440	-	2,986	-	(83)
			2,460	4,787	2,995	5,891	(74)	(147)
					12,999	22,969	1,046	2,474

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 28. FINANCIAL INSTRUMENTS (Continued)

	Average Exchange Rate		Foreign Currency		NZ\$ Contract Value		Fair Value	
	2011	2010	2011 FC'000s	2010 FC'000s	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>Foreign exchange derivatives</b>								
<i>Sell United States dollars</i>								
Less than 3 months	0.7657	0.6558	1,488	975	1,944	1,487	196	93
3 to 6 months	0.7397	-	451	-	609	-	77	-
6 to 12 months	0.8585	-	184	-	214	-	(4)	-
			2,123	975	2,767	1,487	269	93
<i>Buy United States dollars</i>								
Less than 3 months	0.7263	-	33	-	45	-	(7)	-
<i>Sell Euros</i>								
Less than 3 months	0.5396	0.5344	256	294	474	550	41	19
	0.5594	-	204	-	365	-	18	-
			460	294	839	550	59	19
<i>Sell Australian dollars</i>								
Less than 3 months	-	0.8160	-	70	-	86	-	(3)
6 to 12 months	0.7823	-	186	-	237	-	7	-
			186	70	237	86	7	(3)
<i>Buy Japanese Yen</i>								
Less than 3 months	64.4691	-	24,665	-	382	-	(5)	-
					4,270	2,123	323	109

	Average Exchange Rate		Foreign Currency		NZ\$ Contract Value		Fair Value	
	2011	2010	2011 FC'000s	2010 FC'000s	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
<b>Foreign currency forward contracts held as cash flow hedges</b>								
<i>Sell United States dollars</i>								
Less than 3 months	0.8536	0.7079	1,500	700	1,757	989	(6)	(11)
3 to 6 months	-	0.6829	-	300	-	439	-	7
6 to 12 months	0.8323	0.6612	250	1,000	300	1,512	5	63
			1,750	2,000	2,057	2,940	(1)	59
<i>Sell Australian dollars</i>								
Less than 3 months	-	0.7763	-	350	-	451	-	7
3 to 6 months	-	0.7938	-	830	-	1,046	-	(3)
6 to 12 months	-	0.7983	-	225	-	282	-	(1)
			-	1,405	-	1,779	-	3
					2,057	4,719	(1)	62

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



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 28. FINANCIAL INSTRUMENTS (Continued)

### (ii) Foreign currency sensitivity analysis

The Group is mainly exposed to the United States dollar, the Australian dollar and the Euro.

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

	US Dollar Impact		Euro Impact		Australian Dollar Impact	
	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s	2011 \$'000s	2010 \$'000s
Impact on profit or loss and equity:						
10% increase in New Zealand dollar	(306)	(365)	(36)	(61)	(292)	(126)
10% decrease in New Zealand dollar	306	365	36	61	292	126

These movements are mainly attributable to the exposure to outstanding foreign currency bank accounts, receivables and 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.

### (e) Credit risk management

In the normal course of business, the Group and Company incur 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 and Company, as a result of the industry 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 \$4,128,000 (2010: \$2,798,000).

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

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

### (f) Liquidity 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 14 are details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The following table details the Group's sensitivity to a 50 basis point increase and decrease in variable interest rates on short and long term borrowings as at balance date. 50 basis points represents management's assessment of the reasonably possible change in variable interest rates. A positive number below indicates an increase in profit and other equity where the variable interest rates decreases by 50 basis points.

	Group Impact	
	2011 \$'000s	2010 \$'000s
Impact on profit or loss and equity:		
50 basis points increase in variable interest rates	-	(14)
50 basis points decrease in variable interest rates	-	14

These movements are mainly attributable to the exposure to outstanding bank overdraft, short term money market borrowings and variable interest rate term loans.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 28. FINANCIAL INSTRUMENTS (Continued)

### (i) Liquidity and interest risk tables

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.

		Group						
	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
<b>2011</b>								
<b>Financial Liabilities</b>								
Trade creditors and accruals	-	5,115	-	-	-	-	-	5,115
Export Credit Office financing	-	-	30	-	-	-	-	30
Industry development loan	-	-	62	62	-	-	-	124
		5,115	92	62	-	-	-	5,269

<b>2010</b>								
<b>Financial Liabilities</b>								
Bank overdraft	4.75%	325	-	-	-	-	-	325
Trade creditors and accruals	-	4,571	-	-	-	-	-	4,571
Export Credit Office financing	-	-	164	30	-	-	-	194
Bank loans	5.96%	-	866	866	2,599	-	-	4,331
		4,896	1,030	896	2,599	-	-	9,421

		Parent						
	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
<b>2011</b>								
<b>Financial Liabilities</b>								
Trade creditors and accruals	-	2,120	-	-	-	-	-	2,120
Export Credit Office financing	-	-	30	-	-	-	-	30
		2,120	30	-	-	-	-	2,150

<b>2010</b>								
<b>Financial Liabilities</b>								
Bank overdraft	4.75%	859	-	-	-	-	-	859
Trade creditors and accruals	-	2,001	-	-	-	-	-	2,001
Export Credit Office financing	-	-	164	30	-	-	-	194
		2,860	164	30	-	-	-	3,054

The Group has access to financing facilities, the total unused amount which is \$17.4 million at the balance sheet date, (2010: \$14.2 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

### (g) 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).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year Ended 31 August 2011

## 28. FINANCIAL INSTRUMENTS (Continued)

2011	Level 1 \$'000s	Group Level 2 \$'000s	Level 3 \$'000s	Total \$'000s
<b>Financial assets at fair value through profit and loss</b>				
Foreign currency forward contracts held as effective fair value hedges	-	1,046	-	1,046
Foreign exchange derivatives	-	323	-	323
<b>Financial liabilities at fair value through profit and loss</b>				
Foreign currency forward contracts held as cashflow hedges	-	(1)	-	(1)
Fair value hedge of open firm commitments	-	(1,046)	-	(1,046)
	-	322	-	322

<b>2010</b>				
<b>Financial assets at fair value through profit and loss</b>				
Foreign currency forward contracts held as effective fair value hedges	-	2,474	-	2,474
Foreign currency forward contracts held as cashflow hedges	-	62	-	62
Foreign exchange derivatives	-	109	-	109
<b>Financial liabilities at fair value through profit and loss</b>				
Fair value hedge of open firm commitments	-	(2,474)	-	(2,474)
	-	171	-	171

2011	Level 1 \$'000s	Parent Level 2 \$'000s	Level 3 \$'000s	Total \$'000s
<b>Financial assets at fair value through profit and loss</b>				
Foreign currency forward contracts held as effective fair value hedges	-	1,050	-	1,050
Foreign exchange derivatives	-	172	-	172
<b>Financial liabilities at fair value through profit and loss</b>				
Fair value hedge of open firm commitments	-	(1,050)	-	(1,050)
	-	172	-	172

<b>2010</b>				
<b>Financial assets at fair value through profit and loss</b>				
Foreign currency forward contracts held as effective fair value hedges	-	2,457	-	2,457
Foreign currency forward contracts held as cashflow hedges	-	73	-	73
Foreign exchange derivatives	-	103	-	103
<b>Financial liabilities at fair value through profit and loss</b>				
Fair value hedge of open firm commitments	-	(2,457)	-	(2,457)
	-	176	-	176

## 29. SUBSEQUENT EVENTS

Consent was obtained from Chinese authorities in late September 2011 for the Company to acquire a 75% shareholding in a Chinese manufacturing business. The balance of the acquisition price (\$683,000) was paid on 29 September 2011 and control was achieved on that date (refer Note 21).

On 5 October 2011 the Board of Directors approved a final dividend of five cents per share with full imputation credits attached to be paid for the 2011 year (2010: four cents per share).

# SHAREHOLDER INFORMATION

## Substantial Shareholders

The following information is given in accordance with section 26 of the Securities Markets Act 1988.

Names of substantial security holder	Number of shares in which a relevant interest was held as at 12 September 2011
1. Oakwood Securities Limited	5,379,000
2. Russell John Field & Anthony James Palmer (J I Urquhart Family A/c)	5,035,737
3. Tower Asset Management Limited	3,314,641

The total number of issued voting securities of the company as at 12 September 2011 was 39,721,658 ordinary shares.

Under the provisions of the Securities Markets Act 1988, more than one person can have a relevant interest in the same shares. Messrs G J Marsh and W J Marsh and Mrs E Marsh all have a relevant interest in the shares detailed in (1) above.

Distribution of Shares by Holding Size	Number	% of Total	Shares	% of Total
1 - 1,000	833	27.84	408,016	1.03
1,001 - 5,000	1,283	42.88	3,260,768	8.21
5,001 - 10,000	403	13.47	2,893,831	7.28
10,001 - 100,000	443	14.81	10,334,387	26.02
100,001 and over	30	1.00	22,824,656	57.46
Total and percentage	2,992	100.00	39,721,658	100.00

## Twenty Largest Shareholders as at 12 September 2011

	Shares	% of Total
1 New Zealand Central Securities Depository Limited	5,495,039	13.83
2 Oakwood Securities Limited	5,379,000	13.54
3 Russell John Field & Anthony James Palmer (J I Urquhart Family A/c)	5,035,737	12.68
4 Tuhirangi Farm Limited	1,000,000	2.52
5 Forsyth Barr Custodians Limited	554,213	1.40
6 Southern Capital Limited	508,475	1.28
7 Inchinnam Limited	500,000	1.26
8 Sinclair Long Term Holdings Limited	418,167	1.05
9 Jarden Custodians Limited	400,000	1.01
10 Rosebery Holdings Limited	275,000	0.69
11 Jack William Allan & Helen Lynnette Allan	260,000	0.65
12 Graham William Batts, Patricia Joy Batts & Roger Norman Macassey	220,492	0.56
13 Eunice Marsh	206,250	0.52
14 Harry McMillan Hearsey Salmon	200,000	0.50
15 Kenneth William Wigley	194,177	0.49
16 Hamish Heathcote McCrostie	190,000	0.48
17 Investment Custodial Services Limited	189,247	0.48
18 Scott Technology Staff Share Purchase Scheme 2009	187,595	0.47
19 Lloyd James Christie	165,517	0.42
20 FNZ Custodians Limited	159,323	0.39
	21,538,232	54.22

## Employee Remuneration

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

Salary Range	Number of Employees	Salary Range	Number of Employees
\$100,000 - \$110,000	10	\$190,001 - \$200,000	2
\$110,001 - \$120,000	4	\$200,001 - \$210,000	1
\$120,001 - \$130,000	4	\$210,001 - \$220,000	2
\$130,001 - \$140,000	1	\$250,001 - \$260,000	1
\$180,001 - \$190,000	2	\$260,001 - \$270,000	1
		\$430,001 - \$440,000	1



# DIRECTORS' INTERESTS

For the Year Ended 31 August 2011

## Directors' Shareholding as at 31 August 2011

	Beneficially owned		Held by associated persons		Non-beneficially held (jointly held)	
	2011	2010	2011	2010	2011	2010
G W Batts	276,657	275,492	-	-	-	-
C C Hopkins*	91,782	69,871	28,676	19,841	187,595	213,781
S J McLauchlan*	275,000	205,168	-	-	187,595	213,781
M B Waller	65,703	49,872	-	-	-	-
C J Staynes	200,000	148,872	-	-	-	-
	909,142	749,275	28,676	19,841		

\* The non-beneficially held shares are held jointly by C C Hopkins and S J McLauchlan as trustees for the Scott Technology Employee Share Purchase Scheme.

## 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	Date	Consideration Paid \$
SJ McLauchlan	7,206	3/12/2010	7,855
MB Waller	773	3/12/2010	843
CC Hopkins	3,152	3/12/2010	3,436
SJ McLauchlan	1,165	9/12/2010	1,410
GW Batts	1,165	9/12/2010	1,410
MB Waller	1,165	9/12/2010	1,410
CJ Staynes	1,165	9/12/2010	1,410
CC Hopkins	1,165	9/12/2010	1,410
SJ McLauchlan	3,244	19/4/2011	4,087
MB Waller	346	19/4/2011	436
CC Hopkins	1,429	19/4/2011	1,801
SJ McLauchlan	58,217	4/8/2011	69,860
MB Waller	13,546	4/8/2011	16,255
CJ Staynes	49,963	4/8/2011	59,956
CC Hopkins	25,000	4/8/2011	30,000

## Use of Company Information

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

# DIRECTORS' INTERESTS

For the Year Ended 31 August 2011

## Disclosures of Interest by Directors

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

### C J Staynes

Councillor	Dunedin City Council
Chairman	Cargill Enterprises
Council Member	Otago Polytechnic
Director	George Street Wines Ltd
Director	Otago Chamber of Commerce & Industry
Director	The Open Education Resource Foundation Ltd
Trustee	4Trades Trust
Trustee	OSMA Trust

### S J McLauchlan

Pro-Chancellor	University of Otago
Chairman	Pharmac Ltd
Chairman	UDC Finance Limited
Partner	GS McLauchlan & Co
Director	AD Instruments Pty Ltd
Director	Cargill Hotel 2002 Ltd
Director	Dunedin Casinos Ltd
Director	Dunedin City Holdings Ltd & Subsidiaries
Director	Dunedin International Airport Ltd
Director	Dunedin Transport Ltd
Director	HTS-110 Limited
Director	Lund South Ltd
Director	Rosebery Holdings Limited
Director	Roxdale Foods NZ Limited
Director	Scenic Circle Hotels & Subsidiaries
Director	South Canterbury Finance Subsidiaries
Director	University of Otago Foundation Studies Ltd
Trustee	Scott Technology Employee Share Purchase Scheme

### C C Hopkins

Chairman	Robotic Technologies Ltd
Chairman	NS Innovations Pty Ltd
Director	Scott Automation Ltd
Director	Rocklabs Ltd
Director	Scott Systems International Inc
Director	Scott Technology Euro Ltd
Director	Scott Milktech Ltd
Director	Scott Fabtech Ltd
Director	Scott Technology Australia Pty Ltd
Director	Robot Vision Lab Limited
Director	QMT General Partner Ltd
Director	HTS-110 Ltd
Trustee	Scott Technology Employee Share Purchase Scheme
Shareholder	Penfold Transmission Ltd

### M B Waller

Chief Executive Officer	Ebos Group Ltd
Director	Ebos Health & Science Pty Ltd
Director	Ebos Group Pty Ltd
Director	Mansa Investments Ltd
Director	PRNZ Ltd
Director	Pharmacy Retailing (NZ) Ltd
Director	Quantum Scientific Pty Ltd

### G W Batts

Director	HTS-110 Limited
Director	Premidee Ltd

## Remuneration of Directors

During the year ended 31 August 2011, 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 \$'000s
G W Batts	30	-	19
C C Hopkins *	-	419	14
S J McLauchlan	60	-	5
M B Waller	30	-	-
C J Staynes	30	-	-

\* Denotes an Executive Director. Executive Directors are provided with a motor vehicle.

## 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.



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

### **Report on the Financial Statements**

We have audited the financial statements of Scott Technology Limited and group on pages 17 to 52, which comprise the consolidated and separate balance sheets of Scott Technology Limited, as at 31 August 2011, the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cashflows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Directors' Responsibility for the Financial Statements*

The Board of Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibilities*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor and the provision of taxation advice, IT assurance services and due diligence, we have no relationship with or interests in Scott Technology Limited or any of its subsidiaries.

### *Opinion*

In our opinion, the financial statements on pages 17 to 52:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Scott Technology Limited and group as at 31 August 2011, and their financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 August 2011:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Scott Technology Limited as far as appears from our examination of those records.

A stylized, handwritten signature of the word "Deloitte" in blue ink.

**Chartered Accountants**

5 October 2011

Dunedin, New Zealand

# DIRECTORY

## NEW ZEALAND

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### SOLICITORS

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### BANKERS

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### Bank of New Zealand Ltd

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