SCOTT TECHNOLOGY LIMITED

INTERIM REPORT 2018

SCOTT

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CHAIRMAN & MANAGING DIRECTOR'S COMMENTARY

The Directors are pleased to report the company has achieved a surplus before tax of $4.8 million for the six months ended 28 February 2018, an increase of 13% on the $4.2 million recorded for the first half of the 2017 financial year.

For this six months, the company's EBITDA of $6.4m is an increase of 25% over the previous corresponding period's $5.1m delivering 4.2 cents earnings per share, an increase of 27% over the 3.3 cents per share in 2017. Total revenue of $67.5m is a 19% increase on the $56.7m recorded in 2017. The growth experienced during this half year has been driven from organic activities, through uptake of the company's own developed technologies, and continues the trend set in the prior year.

Scott Technology continues to see strong demand for our automation and robotics technology and capability. A strong order intake over recent months has pushed forward work for large projects to a record high and we anticipate operating at near full capacity providing the confidence to continue to expand our capabilities in certain areas. As part of this, our plans for the Dunedin site expansion are complete, awaiting final building consents.

Recent acquisitions have been successfully integrated with the global team working effectively as one. The announcement and subsequent completion of the acquisition of Alvey Europe supports our strategy to grow our skill base and to establish critical mass in our key markets.

The operating cash outflow of $2.6m reflects increased inventory and billings driven by growth, along with our position where the company is at the early stage of our significant forward work. Our strong balance sheet with cash of $21.7m, has been utilised to support substantial growth and we expect this to continue as we enter our next growth phase.

Review of Operations

Our operating margins for the half year ended 28 February 2018 were ahead of those reported for the first half of 2017. For the six months to February 2018, EBITDA margin was 9.5%, an increase from the 9.0% recorded in the six months to February 2017.

Major growth during the period occurred within the company's activities in the Americas, Asia and Europe. Collectively, revenue across these geographies increased 74% to $20.1m. This international growth is underpinned by the continued rollout of our Bladestop bandsaw safety technology beyond Australasia and further supported by strong demand for our automated systems in Germany, China, and the USA. Operating profit in the Americas increased 20%, while Asia and Europe moved from a loss to a $0.3m profit. We see exciting prospects for Europe for both organic growth and with the additional opportunities provided by the pending Alvey acquisition.

During the year we achieved a major milestone with our first complete system design and build in China. This has provided the confidence to take on further complete system builds in the current year.

In Australia and New Zealand our operating margins improved slightly on revenues that increased 5% over the previous corresponding period. Growth in the sale and uptake of our meat processing technologies is expected to accelerate in the second half of the year, following a longer than expected completion time for previous projects and a period of reduced activity in Australia caused in part by the ongoing discussions and uncertainty over the Red Meat Industry roll out of DEXA systems into all Ausmeat accredited facilities.

During the first half of this year we commenced substantial development projects for our meat processing customers, including a start in the Pork and Poultry sector in addition to Beef and Lamb. Our research and development activities underpin our ongoing growth and are undertaken, both alone and with customer, industry or Government support. The commitment to develop technologies and capabilities is significant and spread across all areas of the business.

Dividend

The Directors have declared an interim dividend of 4.0 cents, unchanged from 2017. The dividend will be fully imputed, payable on 24 April 2018 and the Dividend Reinvestment Plan will apply.

Looking Ahead

With a full order book providing momentum into the second half of the 2018 year, and the contribution expected from the acquisition of Alvey, the Directors are confident that building on strong foundations will deliver growth in line with our strategic intent.

The company continues to see strong demand for our skills and capabilities and this, combined with commercialisation of the company's technologies, will underpin organic growth. The Directors and management are confident that adding acquisition growth to organic growth will provide strong value propositions for all stakeholders.

Stuart J McLauchlan
Chairman

Chris C Hopkins
Managing Director

ACQUISITION OF ALVEY GROUP

Scott recently announced the acquisition of the Alvey Group Headquartered in Belgium with operations in France, Czech Republic and the UK. This transaction was completed in April 2018.

Specialists in palletising, conveying and warehouse automation, Alvey is closely aligned to Scott, with complementary products and markets.

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

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

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2018

	6 mths 28 Feb 18 (Unaudited) $'000s	6 mths 28 Feb 17 (Unaudited) $'000s	12 mths 31 Aug 17 (Audited) $'000s
Revenue	67,472	56,670	132,631
Other income	840	126	1,935
Share of joint ventures' net surplus/(deficit)	115	(31)	220
Raw materials, consumables used & other expenses	(39,308)	(32,976)	(77,340)
Employee benefits expense	(22,729)	(18,686)	(40,143)
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)	6,390	5,103	17,303
Depreciation & amortisation	(1,772)	(1,205)	(2,987)
Finance costs	(71)	(40)	(67)
Interest received	213	353	664
NET SURPLUS BEFORE TAXATION	4,760	4,211	14,913
Taxation expense	(1,605)	(1,324)	(4,648)
NET SURPLUS FOR THE PERIOD AFTER TAX	3,155	2,887	10,265
Other Comprehensive Income			
Translation of foreign operations	228	(172)	(607)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	3,383	2,715	9,658
Net surplus for the period is attributable to:			
Members of the parent entity	3,142	2,498	9,890
Non controlling interest	13	389	375
	3,155	2,887	10,265
Total comprehensive income is attributable to:			
Members of the parent entity	3,370	2,326	9,283
Non controlling interest	13	389	375
	3,383	2,715	9,658
		Cents per ordinary share	
Earnings (attributable to members of the parent entity):			
Basic	4.2	3.3	13.2
Diluted	4.2	3.3	13.2
Net tangible assets:			
Basic	76.9	65.9	73.5
Diluted	76.9	65.9	73.5

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2018

	Fully Paid Ordinary Shares $'000s	Retained Earnings $'000s	Foreign Currency Translation Reserve $'000s	Non Controlling Interest $'000s	Total $'000s
Six Months Ended 28 February 2018 (Unaudited)					
Balance at 31 August 2017	71,312	28,064	(2,267)	47	97,156
Net surplus for the period after tax	-	3,142	-	13	3,155
Other comprehensive income for the period net of tax	-	-	228	-	228
Dividends paid (6.0 cents per share)	-	(4,481)	-	-	(4,481)
Issue of ordinary shares under dividend reinvestment plan	2,557	-	-	-	2,557
Balance at 28 February 2018	73,869	26,725	(2,039)	60	98,615
Six Months Ended 28 February 2017 (Unaudited)					
Balance at 31 August 2016	71,312	24,279	(1,660)	669	94,600
Net surplus for the period after tax	-	2,498	-	389	2,887
Other comprehensive income for the period net of tax	-	-	(172)	-	(172)
Dividends paid (5.5 cents per share)	-	(4,107)	-	-	(4,107)
Acquisition of minority interest in subsidiary	-	990	-	(997)	(7)
Balance at 28 February 2017	71,312	23,660	(1,832)	(61)	93,201
Twelve Months Ended 31 August 2017 (Audited)					
Balance at 31 August 2016	71,312	24,279	(1,660)	669	94,600
Net surplus for the year after tax	-	9,890	-	375	10,265
Other comprehensive income for the year net of tax	-	-	(607)	-	(607)
Dividends paid (9.5 cents per share)	-	(7,095)	-	-	(7,095)
Acquisition of minority interest in subsidiary	-	990	-	(997)	(7)
Balance at 31 August 2017	71,312	28,064	(2,267)	47	97,156

BALANCE SHEET

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2018

	6 mths 28 Feb 18 (Unaudited) $'000s	6 mths 28 Feb 17 (Unaudited) $'000s	12 mths 31 Aug 17 (Audited) $'000s
CURRENT ASSETS			
Cash and cash equivalents	21,682	32,810	26,670
Trade debtors	20,053	13,540	17,833
Other financial assets	419	472	144
Sundry debtors and prepayments	2,429	1,037	947
Inventories	19,214	10,660	16,272
Contract work in progress	-	-	4,108
Receivable from joint ventures and associates	2,224	1,863	1,909
Plant and equipment held for sale	345	-	345
	66,366	60,382	68,228
NON CURRENT ASSETS			
Property, plant and equipment	14,071	12,415	14,249
Capital work in progress	254	-	319
Investment in joint ventures and associates	1,232	890	1,118
Goodwill	29,987	29,911	29,987
Deferred tax asset	90	2,206	969
Receivable from joint ventures and associates	-	137	-
Intangible assets	10,536	11,873	11,311
	56,170	57,432	57,953
TOTAL ASSETS	122,536	117,814	126,181
CURRENT LIABILITIES			
Trade creditors and accruals	8,680	9,406	16,590
Finance lease liabilities	20	32	30
Other financial liabilities	210	182	1
Employee entitlements	5,323	3,316	4,272
Provision for warranty	1,291	1,096	1,300
Payable to joint ventures	1,167	214	547
Taxation payable	2,152	1,686	3,691
Contract work in progress	3,447	2,310	-
Current portion of deferred settlement of intangible asset purchase	-	1,066	-
	22,290	19,308	26,431
NON CURRENT LIABILITIES			
Employee entitlements	1,612	2,067	2,568
Finance lease liability	19	40	26
Non current portion of deferred settlement of intangible asset purchase	-	3,198	-
	1,631	5,305	2,594
EQUITY			
Share capital	73,869	71,312	71,312
Retained earnings	26,725	23,660	28,064
Foreign currency translation reserve	(2,039)	(1,832)	(2,267)
Equity attributable to equity holders of the parent	98,555	93,140	97,109
Non controlling interest	60	61	47
TOTAL EQUITY	98,615	93,201	97,156
TOTAL LIABILITIES & EQUITY	122,536	117,814	126,181

STATEMENT OF CASH FLOWS

AS AT 28 FEBRUARY 2018

	Notes	6 mths 28 Feb 18 (Unaudited) $'000s	6 mths 28 Feb 17 (Unaudited) $'000s	12 mths 31 Aug 17 (Audited) $'000s
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from/(applied to):				
Receipts from operations		73,307	60,576	126,908
Interest received		213	353	664
Net GST received/(paid)		(230)	531	(65)
Payments to suppliers and employees		(73,547)	(49,023)	(111,365)
Interest paid		(71)	(40)	(67)
Taxation paid		(2,265)	(2,153)	(2,668)
Net cash inflow/(outflow) from operating activities	2	(2,593)	10,244	13,407
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from/(applied to):				
Purchase of property, plant, equipment and intangible assets		(797)	(6,790)	(12,976)
Sale of property, plant and equipment		39	90	337
Advance from joint ventures		305	(306)	(293)
Repayment of advance to Employee Share Purchase Scheme		-	-	2
Purchase of business		-	-	(375)
Purchase of non controlling interest in subsidiary		-	(550)	(550)
Net cash outflow from investing activities		(453)	(7,556)	(13,855)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from/(applied to):				
Repayment of borrowings		(18)	(15)	(31)
Dividends paid		(4,481)	(4,107)	(7,095)
Issue of share capital under Dividend Reinvestment Plan		2,557	-	-
Net cash outflow from financing activities		(1,942)	(4,122)	(7,126)
Net decrease in cash held		(4,988)	(1,434)	(7,574)
Add cash and cash equivalents at beginning of the period		26,670	34,244	34,244
Balance at end of the period		21,682	32,810	26,670
Comprised of:				
Cash and cash equivalents		21,682	32,810	26,670

1 – FINANCIAL STATEMENTS

Statement of Compliance

The unaudited interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standard 34 ("NZ IAS-34") "Interim Financial Reporting" and other applicable financial reporting standards as appropriate for profit orientated entities. Compliance with NZ IAS-34 ensures compliance with International Accounting Standard 34 "Interim Financial Reporting".

These financial statements have been prepared using the same accounting policies as the previously published annual financial statements as at 31 August 2017. These interim financial statements should be read in conjunction with the policies disclosed in the annual financial statements.

2 – NOTES TO THE CASHFLOW STATEMENT

	6 mths 28 Feb 18 (Unaudited) $'000s	6 mths 28 Feb 17 (Unaudited) $'000s	12 mths 31 Aug 17 (Audited) $'000s
Net surplus for the period	3,155	2,887	10,265
Adjustments for non-cash items:			
Depreciation and amortisation	1,772	1,205	2,987
Net loss/(gain) on sale of property, plant and equipment	6	-	(73)
Deferred tax	879	(603)	201
Share of net deficit/(surplus) of joint ventures and associates	(115)	31	(220)
Impairment of net assets (QMT Machinery Technology (Qingdao) Co Limited)	-	-	(936)
Add/(less) movement in working capital:			
Trade debtors	(2,220)	2,293	(2,000)
Other financial assets - derivatives	(275)	1,004	1,332
Sundry debtors and prepayments	(1,482)	88	174
Inventories	(2,942)	1,683	(3,929)
Contract work in progress	7,555	1,173	(5,245)
Taxation payable	(1,539)	(226)	1,779
Trade creditors and accruals	(7,910)	1,044	8,228
Other financial liabilities - derivatives	209	(440)	(619)
Employee entitlements	95	(262)	1,195
Provision for warranty	(9)	(4)	200
Movements in working capital disclosed in investing/financing activities:			
Movement in foreign exchange translation reserve relating to working capital	228	(172)	(607)
Working capital relating to business purchases/amalgamation	-	-	675
Working capital relating to purchase of non controlling interest	-	543	-
Net cash inflow from operating activities	(2,593)	10,244	13,407

3 – CONTINGENT LIABILITIES

	6 mths 28 Feb 18 (Unaudited) $'000s	6 mths 28 Feb 17 (Unaudited) $'000s	12 mths 31 Aug 17 (Audited) $'000s
Payment guarantees and performance bonds	15,068	3,550	7,711
Stock Exchange bond	75	75	75
Rental bonds	265	16	-
Maximum contract penalty clause exposure	3,181	2,317	1,501

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

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

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

4 – SEGMENT INFORMATION

4.1 Products and Services from which Reportable Segments Derive Their Revenues

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

- Australasia Manufacturing
- Americas Manufacturing
- Asia and Europe Manufacturing

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

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

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

4.2 Segment Revenues and Results

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

4.2 Segment Revenues and Results *(cont.)*

Six Months Ended 28 February 2018 (Unaudited)	Australasia Manufacturing $'000s	Americas Manufacturing $'000s	Asia & Europe Manufacturing $'000s	Unallocated $'000s	Total $'000s
Revenue	47,367	11,381	8,724	-	67,472
Operating profit	7,600	716	254	-	8,570
Depreciation and amortisation	(1,242)	(70)	(217)	(243)	(1,772)
Share of net surplus/(deficit) of joint ventures	110	42	(37)	-	115
Interest revenue	1	-	1	211	213
Central administration costs and foreign exchange	-	-	-	(2,295)	(2,295)
Finance costs	(1)	-	-	(70)	(71)
Net profit/(loss) before taxation	6,468	688	1	(2,397)	4,760
Taxation (expense)/credit	(2,107)	(185)	-	687	(1,605)
Net profit/(loss) after taxation	4,361	503	1	(1,710)	3,155

Six Months Ended 28 February 2017 (Unaudited)	Australasia Manufacturing $'000s	Americas Manufacturing $'000s	Asia & Europe Manufacturing $'000s	Unallocated $'000s	Total $'000s
Revenue	45,091	6,263	5,316	-	56,670
Operating profit/(loss)	7,202	598	(648)	-	7,152
Depreciation and amortisation	(825)	(76)	(121)	(183)	(1,205)
Share of net deficit of joint ventures	-	(18)	(13)	-	(31)
Interest revenue	2	-	-	351	353
Central administration costs and foreign exchange	-	-	-	(2,018)	(2,018)
Finance costs	(1)	-	-	(39)	(40)
Net profit/(loss) before taxation	6,378	504	(782)	(1,889)	4,211
Taxation (expense)/credit	(1,945)	(149)	219	551	(1,324)
Net profit/(loss) after taxation	4,433	355	(563)	(1,338)	2,887

4.2 Segment Revenues and Results *(cont.)*

Twelve Months Ended 31 August 2017 (Audited)	Australasia Manufacturing $'000s	Americas Manufacturing $'000s	Asia & Europe Manufacturing $'000s	Unallocated $'000s	Total $'000s
Revenue	99,846	17,055	15,730	-	132,631
Operating profit/(loss)	19,309	2,068	(509)	-	20,868
Fair value gain on purchase of business	-	-	-	936	936
Depreciation and amortisation	(2,267)	(155)	(197)	(368)	(2,987)
Share of net surplus of joint ventures	175	44	1	-	220
Interest revenue	1	-	2	661	664
Central administration costs and foreign exchange	-	-	-	(4,721)	(4,721)
Finance costs	(4)	-	-	(63)	(67)
Net profit/(loss) before taxation	17,214	1,957	(703)	(3,555)	14,913
Taxation (expense)/credit	(5,031)	(670)	19	1,034	(4,648)
Net profit/(loss) after taxation	12,183	1,287	(684)	(2,521)	10,265

Revenue reported above represents revenue generated from external customers. Inter-segment sales were $0.9 million for the six months ended 28 February 2018 (six months ended 28 February 2017: $1.4 million).

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.

5 – FINANCIAL INSTRUMENTS

The Group enters into foreign currency forward exchange contracts to hedge trading transactions, including anticipated transactions, denominated in foreign currencies.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship. The Group designates certain derivatives as cashflow hedges of highly probable forecast transactions.

5 – FINANCIAL INSTRUMENTS *(cont.)*

Fair value of derivative financial instruments	6 mths 28 Feb 18 (Unaudited) $'000s	6 mths 28 Feb 17 (Unaudited) $'000s	12 mths 31 Aug 17 (Audited) $'000s
Other financial assets - derivatives:			
Foreign currency forward contracts held as effective fair value hedges	210	180	1
Foreign exchange derivatives	145	148	143
Foreign exchange collar option derivatives	64	144	-
Other financial liabilities - derivatives:			
Fair value hedge of open firm commitments	(210)	(180)	(1)
	209	292	143

The Group has categorised these derivatives, both financial assets and financial liabilities, as Level 2 under the fair value hierarchy contained within NZ IFRS 13.

The fair value of foreign currency forward exchange contracts is determined using a discounted cashflow valuation. Key inputs include observable forward exchange rates, at the measurement date, with the resulting value discounted back to present values.

There have been no changes in valuation techniques used for foreign currency forward exchange contracts during the current reporting period.

There were no transfers between fair value hierarchy levels during either the current or prior periods.

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

6 – ACQUISITION OF ALVEY GROUP

On 20 February 2018 the Board of Directors approved in principle the purchase of the business assets and intellectual property of Alvey Group, Headquartered in Belgium with associated operations in France, Czech Republic and the UK. Due diligence has subsequently been completed and the sale and purchase agreement has been finalised, with an acquisition date of April 2018. The transaction has a value of €12.1 million, subject to final adjustments, and is expected to have a positive impact on earnings from completion.

7 – SUBSEQUENT EVENTS

On 5 April 2018 the Board of Directors approved an interim dividend of four cents per share with full imputation credits attached to be paid for the 2018 year (2017 interim dividend: four cents per share). The Dividend Reinvestment Plan reintroduced by the Company in 2017 applied to this payment.

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