

# SCOTT



SCOTT TECHNOLOGY LIMITED HALF YEAR REPORT

 **SCOTT**

For the six months ended 29 February 2004

- Interim dividend of 6 cents per share.
- Positive operating cash flow of \$4.5million.
- Joint venture, Robotic Technologies Ltd, continues further development of meat processing automation.
- Strong balance sheet with no long term debt.
- Major lines completed and shipped to USA, Mexico and Australia.



**HIGHLIGHTS**

**SCOTT 2004**



## *Financial Commentary*

The Directors of Scott Technology Limited are pleased to report that the unaudited result for the six months ended 29 February 2004 was an operating surplus before tax of \$2,815,000 and a tax paid profit of \$1,868,000. This compares to an unaudited operating surplus before tax of \$3,746,000 and an after tax profit of \$2,498,000 for the six months ended 28 February 2003. The group sales for the six months were \$16.9 million, compared to \$23.4 million in the previous half year.

Total shareholders equity at 29 February 2004 was \$16.8 million, up from \$14.6 million at 28 February 2003. The company is in a very sound financial position, with the balance sheet showing



\$3.5 million of cash and net working capital of \$7.5 million at 29 February 2004. Net positive operating cash flow of \$4.5 million for the six months highlights effective working capital management in a cash generating business.

## *Dividend*

The Directors have declared an interim dividend of 6.0 cents per share, which is the same rate as last year, but is payable on a share capital increased by the one for eight bonus issue made in December 2003. This effectively equates to a 12.5% increase in the dividend paid to shareholders, compared to the same period last year and is a payout of 80% of the profit after tax for the 6 month period. The company's policy is to reward all its stakeholders appropriately and

the Directors seek to maintain a high dividend payout ratio which this year's strong balance sheet enables.

The share register will close for the dividend calculation on 30 April 2004. The dividend will be payable on 6 May 2004 and will be fully imputed with a supplementary dividend being applied to overseas shareholders.

### *Review of Operations*

Scott Technology's core business is the design, manufacture and installation of sophisticated production lines for the global appliance industry and the first half of the financial year was challenging as a result of the strong NZ dollar and the uncertainty in global markets. Our Christchurch appliance division had several major contracts in



## **DIRECTORS' REPORT**

progress from China and the USA and significant work in Australia and all staff remained fully committed. The company is currently undertaking negotiations with several clients in the USA and Mexico and there is evidence of a growing level of enquiry from our international customers.

Scott's marketing office in Shanghai made considerable progress and a significant appliance project for a Chinese customer is currently under manufacture. Scott's appliance division will be exhibiting at the forthcoming China Appliance Fair in Beijing. The Directors see China as a growing source of contracts for the company.

The Dunedin Automation division has its principal focus on the continuing development of robotic applications for the meat industry

in conjunction with PPCS. The first robotic line for boning lamb hindquarters is operating on a double shift basis and research and development is continuing on the phase two primal cuts project.

Your Directors see this technology development as very exciting and believe it will have international potential when fully developed. To further assist this primary industry research a Technology for Business grant from the New Zealand Government has been received and a funding grant from Meat & Livestock Australia to assist Australian meat companies to install similar robotic applications is being negotiated. These grants are tangible evidence of the perceived potential of Scott's automation within the meat industry.



Like all major technology developments, Scott's are making a substantial investment now with expectation of significant returns in the future.

Scott Automation Auckland division manufacturing sales showed a substantial increase in the first half with several new projects secured for customers in the food and beverage industries in both New Zealand and Australia.

The principal challenge facing Scott Technology and other exporters is the high value of the NZ dollar when the economic outlook is uncertain. Scott's will meet this challenge by continuing to secure contracts in the global market, albeit sometimes at lower margins.



Scott Technology continues to generate very positive cash flow and with a strong balance sheet notable for the absence of debt and with several million in cash, your Directors view the current challenges as temporary, and the future with restrained optimism.

*Graeme J. Marsh .*

**Graeme J. Marsh**

*Chairman of Directors*

*K. Kilpatrick*

**Kevin J. Kilpatrick**

*Chief Executive*

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

	For the 6 months to 29 Feb 04 \$000	28 Feb 03 \$000	12 Months to 31 Aug 03 \$000
	unaudited	unaudited	audited
<b>Group sales</b>	<b>16,877</b>	23,351	47,490
<b>Operating surplus before tax</b>	<b>2,815</b>	3,746	8,443
Income tax charge	( 947)	( 1,248)	( 2,809)
<b>Net surplus after tax</b>	<b>1,868</b>	2,498	5,634

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

	For the 6 months to 29 Feb 04 \$000	28 Feb 03 \$000	12 Months to 31 Aug 03 \$000
	unaudited	unaudited	audited
<b>Equity at the beginning of the period</b>	<b>16,932</b>	13,480	13,480
Net surplus after tax	1,868	2,498	5,634
Revaluation of land and buildings	-	-	527
	<b>1,868</b>	2,498	6,161
Contribution from owners	-	189	189
Dividends paid to owners	( 1,997)	( 1,566)	( 2,898)
<b>Equity at the end of the period</b>	<b>16,803</b>	14,601	16,932

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 29 Feb 04 \$000	As at 28 Feb 03 \$000	As at 31 Aug 03 \$000
	unaudited	unaudited	audited
<b>EQUITY</b>			
Share capital	7,629	7,629	7,629
Capital reserves	1,203	676	1,203
Revenue reserves	7,971	6,296	8,100
<b>Total Shareholders' equity</b>	<b>16,803</b>	14,601	16,932
<b>CURRENT LIABILITIES</b>			
Trade creditors	1,215	1,607	1,269
Contract claims (net)	–	1,302	–
Sundry creditors and accruals	856	1,923	772
Employee entitlements	904	770	1,693
Provision for warranty	300	150	500
Provision for tax	274	640	239
	<b>3,549</b>	6,392	4,473
	<b>20,352</b>	20,993	21,405
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8,669	8,094	8,655
Other investments	122	210	133
	<b>8,791</b>	8,304	8,788
<b>Deferred tax benefit</b>	<b>464</b>	264	501
<b>CURRENT ASSETS</b>			
Cash and bank	3,540	4,364	1,561
Trade debtors	3,386	7,440	5,923
Sundry debtors and prepayments	10	382	449
Inventories	194	239	217
Contract work in progress (net)	3,967	–	3,966
	<b>11,097</b>	12,425	12,116
	<b>20,352</b>	20,993	21,405

## CONSOLIDATED STATEMENT OF CASH FLOWS

	For the 6 months to 29 Feb 04 \$000	28 Feb 03 \$000	12 Months to 31 Aug 03 \$000
	unaudited	unaudited	audited
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Receipts from operations	19,640	19,628	40,627
Interest received	39	117	261
	<b>19,679</b>	19,745	40,888
Cash was applied to:			
Payments to suppliers and employees	14,302	18,372	38,221
Interest paid	5	16	54
Company taxes paid	875	836	3,035
	<b>15,182</b>	19,224	41,310
<b>Net Cash from / (used in) operating activities</b>	<b>4,497</b>	521	( 422)
<b>Cash flows from investing activities</b>			
Cash was provided from:			
Sale of property, plant and equipment	213	9	72
Sale of investments	11	22	99
	<b>224</b>	31	171
Cash was applied to:			
Purchase of property, plant and equipment	745	1,199	1,868
	<b>745</b>	1,199	1,868
<b>Net cash used in investing activities</b>	<b>( 521)</b>	( 1,168)	( 1,697)
<b>Cash flows from financing activities</b>			
Cash was applied to:			
Dividends paid	1,997	1,566	2,898
<b>Net cash used in financing activities</b>	<b>( 1,997)</b>	( 1,566)	( 2,898)
<b>Net movement in bank position</b>	<b>1,979</b>	( 2,213)	( 5,017)
Effect of exchange rate on foreign currency balance	-	( 4)	( 3)
Opening bank position	1,561	6,581	6,581
<b>Closing bank position</b>	<b>3,540</b>	4,364	1,561

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Financial statements

These interim financial statements have been prepared in accordance with Financial Reporting Standard No. 24 and generally accepted accounting practice and should be read in conjunction with the 2003 annual report.

The half year financial statements are unaudited, however the 31 August 2003 comparatives have been extracted from audited financial statements.

### 2 Accounting policies

There have been no changes to the accounting policies, as disclosed in the 2003 annual report, in the preparation of these interim financial statements.

### 3 Reconciliation of net surplus after tax with net cash from operating activities

	<b>For the 6 months to</b>	<b>12 Months to</b>	
	<b>29 Feb 04</b>	<b>28 Feb 03</b>	<b>31 Aug 03</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
	<b>unaudited</b>	<b>unaudited</b>	<b>audited</b>
<b>Net surplus after tax</b>	<b>1,868</b>	2,498	5,634
<b>Add/(less) non cash items</b>			
Depreciation	554	543	1,129
Deferred tax benefit	37	( 118)	( 355)
Net gain on foreign currency balance	-	4	3
<b>Add/(less) movements in working capital items</b>			
Debtors and prepayments	2,976	( 1,179)	271
Inventories	23	183	205
Contract work in progress	( 1)	( 2,710)	( 7,978)
Creditors and provisions	( 959)	775	559
Provision for tax	35	530	129
<b>Less items classified as investing</b>			
Gain on sale of property, plant and equipment	( 36)	( 5)	( 19)
<b>Net cash from /(used in) operating activities</b>	<b>4,497</b>	521	( 422)

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