



APPLIANCE SYSTEMS



LABORATORY  
AUTOMATION



MEAT PROCESSING  
AUTOMATION

**SCOTT TECHNOLOGY LIMITED**

**2010**

**Half Year Report**

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2010

# DIRECTORS' REPORT

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## FINANCIAL COMMENTARY

The Group's unaudited result for the six months ended 28 February 2010 was a net profit before tax of \$1.4 million, compared to an unaudited loss before tax of \$0.7 million for the six months ended 28 February 2009. Group revenue for the six months was \$20.3 million, compared to Group revenue of \$13.5 million for the six months ended 28 February 2009. A pleasing aspect of the first six months' result is the strong positive cashflow from operations of \$1.6 million.

## REVIEW OF OPERATIONS

The improved performance and trading conditions that we saw in the second half of 2009, continued into the first half of 2010.

During this period we have been successful in securing significant system sales within the Appliance, Precious Metals and Meat Processing markets. Contracts for new projects destined for Australia, Brazil, China, Chile and the USA have stretched our capacity to a point where we have a requirement for additional resources. In addition to these new projects, we have been working on, and completing, production lines for customers in Australia, Turkey, USA and Spain.

We continue to see increased activity within our meat processing market and this has been boosted by the establishment of Scott Technology Australia Pty Ltd in Sydney. An Australian General Manager has been appointed who has significant experience in the meat industry, both within Australia and worldwide. Development work is carrying on to extend our product offering and world leading technology. This is in addition to the rollout of our commercialised systems and we are pleased to report another X-Ray Primal System was successfully installed at a New Zealand meat processing plant during this period.

The past six months has seen an uplift in the global appliance market with enquiries increasing toward normal levels. We are also seeing this in our minerals and precious metals markets where the strong combination of Rocklabs' industry experience with Scott's expertise in large automated systems is being recognised by the market.

## DIVIDEND AND BONUS ISSUE

In late March the Directors paid an interim dividend of 1.25 cents per share, together with a 1 for 10 non-taxable bonus issue which also participated in the dividend. 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.

With a strong balance sheet, improved trading conditions and a talented team of people, we are positioned to deliver on a growing level of current work and future prospects. We continue to assess business and growth opportunities and will progress those where there is a positive impact on earnings and where strong synergies exist.



Stuart J McLauchlan  
*Chairman*



Christopher C Hopkins  
*Managing Director*

# INCOME STATEMENT

For the Six Months Ended 28 February 2010

	6 mths 28 Feb 10 (Unaudited) \$'000s	6 mths 28 Feb 09 (Unaudited) \$'000s	12 mths 31 Aug 09 (Audited) \$'000s
Revenue	20,299	13,453	31,315
Other income	8	16	179
Raw materials & consumables used	(9,646)	(5,680)	(13,934)
Employee benefits expense	(6,361)	(5,533)	(11,454)
Depreciation	(466)	(426)	(875)
Finance costs	(202)	(304)	(543)
Other expenses	(2,227)	(2,274)	(4,298)
<b>NET SURPLUS/(DEFICIT) BEFORE TAXATION</b>	1,405	(748)	390
Taxation benefit/(expense)	(432)	274	(125)
<b>NET SURPLUS/(DEFICIT) FOR THE PERIOD</b>	973	(474)	265
Net surplus/(deficit) attributable to:			
Members of the parent entity	980	(397)	354
Minority interest	(7)	(77)	(89)
	973	(474)	265
<b>Net surplus/(deficit) per share from continuing operations:</b>			
Basic (cents per share)	3.4	(1.4)	1.3
Diluted (cents per share)	3.4	(1.4)	1.3
<b>Net tangible assets per ordinary share:</b>			
Basic (cents per share)	46.9	41.5	44.4
Diluted (cents per share)	46.9	41.5	44.4
<b>STATEMENT OF COMPREHENSIVE INCOME</b> <b>For the Six Months Ended 28 February 2010</b>			
Translation of foreign operations exchange differences taken to equity	-	(12)	-
Net surplus/(deficit) for the period attributable to:			
Members of the parent entity	980	(397)	354
Minority interest	(7)	(77)	(89)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	973	(486)	265
<b>STATEMENT OF CHANGES IN EQUITY</b> <b>For the Six Months Ended 28 February 2010</b>			
Equity at beginning of the period	19,238	18,821	18,821
Issue of shares to Employee Share Purchase Scheme	-	-	152
Total comprehensive income	973	(486)	265
Dividends	(245)	-	-
<b>EQUITY AT END OF PERIOD</b>	19,966	18,335	19,238

# BALANCE SHEET

As at 28 February 2010

	6 mths 28 Feb 10 (Unaudited) \$'000s	6 mths 28 Feb 09 (Unaudited) \$'000s	12 mths 31 Aug 09 (Audited) \$'000s
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	-	-	1,535
Trade debtors	6,741	4,087	6,827
Finance lease receivables	-	49	-
Other financial assets	1,389	2,265	1,326
Sundry debtors and prepayments	507	160	219
Inventories	3,134	4,672	4,000
Contract work in progress	495	-	-
Taxation receivable	-	23	93
Receivable from joint venture	2,262	2,445	1,400
	14,528	13,701	15,400
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	10,266	10,631	10,361
Investment in joint ventures	57	16	103
Other financial assets	1,763	292	1,621
Goodwill	6,607	6,607	6,607
Deferred tax asset	248	809	411
Receivable from joint ventures	-	-	912
	18,941	18,355	20,015
<b>TOTAL ASSETS</b>	<b>33,469</b>	<b>32,056</b>	<b>35,415</b>
<b>CURRENT LIABILITIES</b>			
Net overdraft	579	866	-
Trade creditors and accruals	3,863	3,349	3,456
Finance lease payable	-	13	-
Other financial liabilities	1,336	2,802	4,535
Employee entitlements	1,031	699	1,051
Provision for warranty	350	350	350
Bank loans – current portion	624	518	603
Contract work in progress	-	402	493
Taxation payable	238	-	-
	8,021	8,999	10,488
<b>NON CURRENT LIABILITIES</b>			
Other financial liabilities	1,641	281	1,524
Employee entitlements	255	238	262
Bank loans – non current portion	3,586	4,203	3,903
	5,482	4,722	5,689
<b>OWNERS EQUITY</b>			
Share capital	11,781	11,629	11,781
Retained earnings	8,332	6,834	7,597
Minority interest	(147)	(128)	(140)
	19,966	18,335	19,238
<b>TOTAL LIABILITIES &amp; OWNERS EQUITY</b>	<b>33,469</b>	<b>32,056</b>	<b>35,415</b>

# STATEMENT OF CASHFLOWS

For the Six Months Ended 28 February 2010

	Notes	6 mths 28 Feb 10 (Unaudited) \$'000s	6 mths 28 Feb 09 (Unaudited) \$'000s	12 mths 31 Aug 09 (Audited) \$'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from (applied to):</b>				
Receipts from operations		19,020	14,912	29,681
Interest received		4	16	28
Net GST received/(paid)		(83)	306	273
Payments to suppliers and employees		(17,154)	(14,674)	(29,417)
Interest paid		(203)	(315)	(565)
Taxation paid		62	(6)	4
<b>Net cash inflow (outflow) from operating activities</b>	2	1,646	239	4
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from (applied to):</b>				
Purchase of property, plant and equipment		(371)	(1,255)	(1,434)
Sale of property, plant and equipment		-	17	57
Investment in joint ventures		-	(743)	(105)
Advance from/(advance to) joint ventures		50	-	(610)
Advance to Employee Share Purchase Scheme		-	-	(152)
Repayment of advance to Employee Share Purchase Scheme		25	-	47
<b>Net cash inflow (outflow) from investing activities</b>		(296)	(1,981)	(2,197)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Cash was provided from (applied to)</b>				
Vehicle finance lease		-	(35)	(49)
Proceeds from borrowings		-	-	2,923
Repayment of borrowings		(3,219)	(243)	(458)
Dividends paid		(245)	-	-
Issue of share capital		-	-	152
<b>Net cash inflow (outflow) from financing activities</b>		(3,464)	(278)	2,568
Net increase/(decrease) in cash held		(2,114)	(2,020)	375
Add cash and cash equivalents at start of period		1,535	1,160	1,160
Effect of exchange rate changes on the balance of cash held in foreign currencies		-	(6)	-
<b>Balance at end of period</b>		(579)	(866)	1,535
<b>Comprised of:</b>				
Cash and cash balances		321	1,144	1,535
Bank overdraft		-	(410)	-
Short term money market borrowings		(900)	(1,600)	-
Cash and cash equivalents/(net overdraft)		(579)	(866)	1,535

# NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the Six Months Ended 28 February 2010

## 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 2009. These interim financial statements should be read in conjunction with the policies disclosed in the annual financial statements.

## 2. RECONCILIATION OF NET PROFIT AFTER TAXATION WITH NET CASHFLOWS FROM OPERATING ACTIVITIES

	6 mths 28 Feb 10 (Unaudited) \$'000s	6 mths 28 Feb 09 (Unaudited) \$'000s	12 mths 31 Aug 09 (Audited) \$'000s
Net surplus/(deficit) for the period	973	(474)	265
<b>Adjustments for non-cash items:</b>			
Depreciation	466	426	875
Net loss/(gain) on foreign currency balance	-	6	(27)
Deferred tax	163	(274)	124
Share of net loss/(surplus) of joint ventures	46	53	18
Settlement of debtors by way of advance to joint venture	-	-	(1,702)
<b>Add (less) movement in working capital:</b>			
Trade debtors	86	844	(141)
Finance lease receivables	-	23	72
Other financial assets - derivatives	(319)	(1,886)	(2,359)
Sundry debtors and prepayments	(288)	267	208
Inventories	866	(512)	160
Contract work in progress	(988)	196	287
Taxation payable	331	(6)	(76)
Trade creditors and accruals	407	(261)	(154)
Other financial liabilities - derivatives	(70)	2,237	2,478
Employee entitlements	(27)	(400)	(24)
Net cash inflow from operating activities	1,646	239	4

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.

# NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the Six Months Ended 28 February 2010

## 3. CONTINGENT LIABILITIES

	6 mths 28 Feb 10 (Unaudited) \$'000s	6 mths 28 Feb 09 (Unaudited) \$'000s	12 mths 31 Aug 09 (Audited) \$'000s
Standby letter of credit	-	800	-
Payment guarantees	182	4,213	2,669
Stock exchange bond	75	75	75
Maximum contract penalty clause exposure	1,061	730	791

Payment guarantees and the standby letter of credit have been provided to customers in respect of advance payments received by the Group for contract work in progress.

Scott Technology Limited has a payment bond to the value of \$75,000 in place with 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 need to occur before penalty clauses are imposed.

## 4. CAPITAL COMMITMENTS

There were no capital commitments as at 28 February 2010 (28 February 2009: \$Nil).

## 5. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Country of Incorporation	Ownership Interest			Fair Value		
		28 Feb 10 %	28 Feb 09 %	31 Aug 09 %	28 Feb 10 \$'000	28 Feb 09 \$'000	31 Aug 09 \$'000
Robotic Technologies Limited (i)	New Zealand	50	50	50	16	16	16
Scott Technology Euro Limited (ii)	Ireland	50	50	50	-	-	-
NS Innovations Pty Limited (iii)	Australia	50	-	50	-	-	-

- (i) Scott Technology Limited's joint venture with Silver Fern Farms Limited, Robotic Technologies Limited (RTL), was formed in October 2003 and has a balance date of 31 August. RTL's principal activity is the marketing and development of (primarily lamb) meat processing equipment and the management of the intellectual property associated with these developments. Scott Technology Limited's share of RTL's net loss was \$45,000 for the six months ended 28 February 2010 (six months ended 28 February 2009: \$Nil).
- (ii) Scott Technology Euro Limited is Scott Technology Limited's European sales agency and is a joint venture between Scott Technology Limited and Industrial Process Solution of Italy. Scott Technology Euro Limited was formed in 2008 and has a balance date of 31 August. Scott Technology Limited's share of Scott Technology Euro Limited's net deficit was \$1,000 for the six months ended 28 February 2010, (six months ended 28 February 2009: net deficit of \$53,000).
- (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. The company commenced trading in the current financial year. Scott Technology Limited's share of NSIL's net surplus was \$Nil for the six months ended 28 February 2010 (six months ended 28 February 2009: \$Nil).

# NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS

For the Six Months Ended 28 February 2010

## 6. SEGMENT INFORMATION

### 6.1 Adoption of NZ IFRS 8 Operating Segments

The Group has adopted NZ IFRS-8 Operating Segments, with effect from 1 September 2009. 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 in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (NZ IAS-14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of NZ IFRS-8, the identification of the Group's reportable segments has changed.

### 6.2 Products & Services from which Reportable Segments Derive Their Revenues

The Group operates in one reportable segment under NZ IFRS-8, that being Industrial Automation.

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