Wellington

Annual Report 2019

Wellington®

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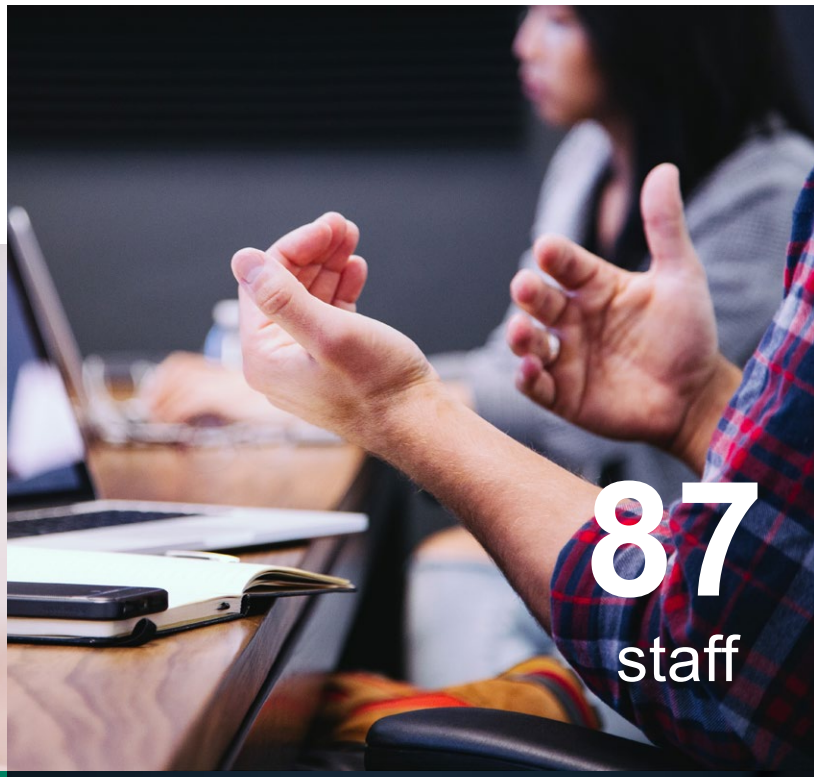
There are statements in this document that are "forward-looking statements". As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations, the markets in which it competes and other factors (some of which are beyond the control of Wellington).

All references in this document to $ or "dollars" are references to New Zealand dollars unless otherwise stated.

Wellington's financial year is 31 December.

The numbers 2019

104
customers



87
staff

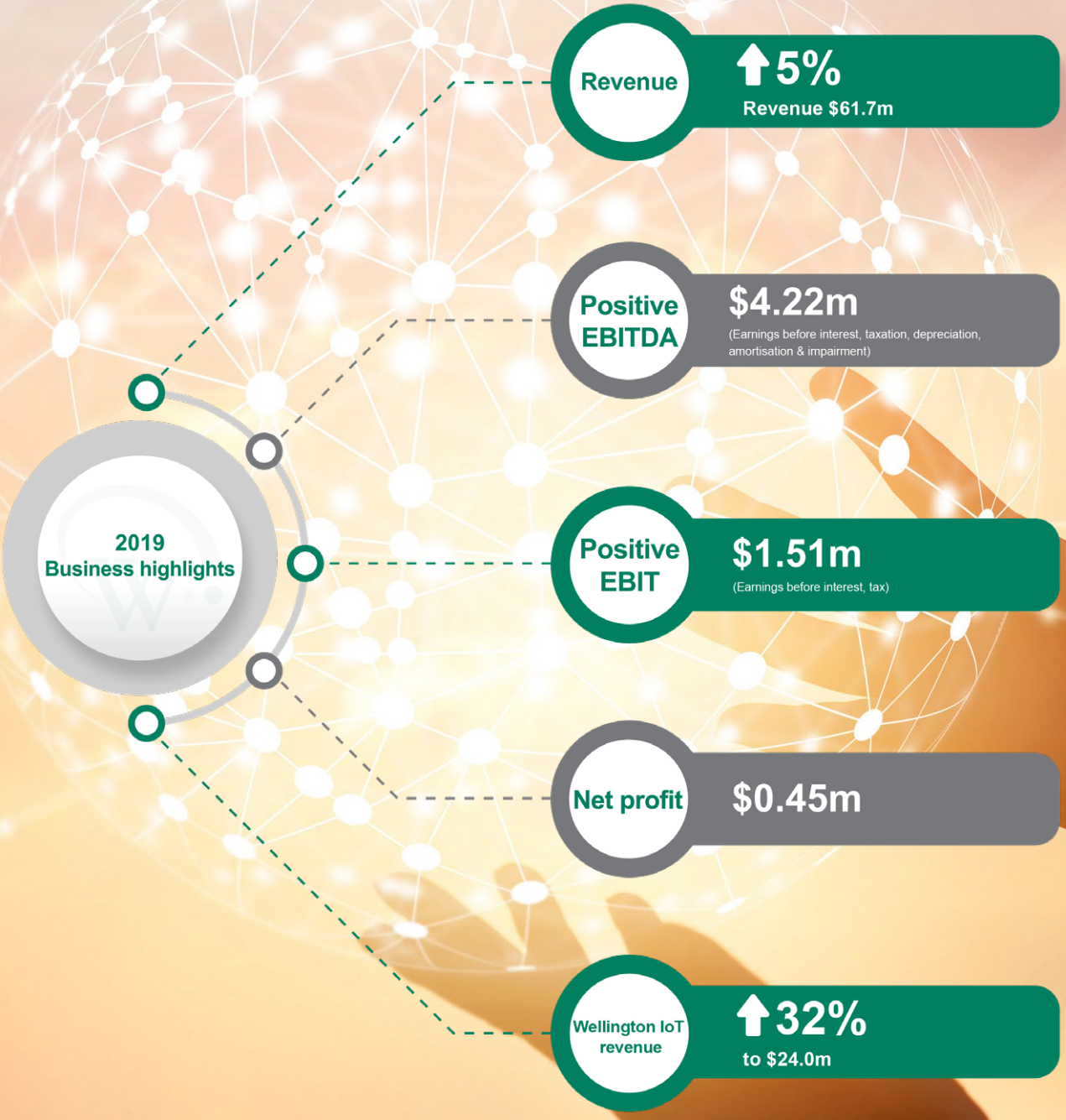
2,611
shareholders
at 10 February 2020

$61.7m
revenue

4
offices with a globally dispersed team
NZ, Turkey, Italy, Brazil, Spain, Mexico, USA, Canada, Argentina, Chile, Colombia, Singapore, China

Business highlights

2019



Report of the Chairman and Chief Executive Officer

Wellington's strategy is focused on growing its IoT business with large food and beverage customers, accessing new markets with IoT and proximity marketing solutions and expanding the customer base for its ECR®2 motor platform. This strategy is delivering year on year revenue growth and improved profitability.

Metric (NZD)	2019	2018	Change
Revenue	$61.7m	$58.8m	+5.0%
Wellington Connect IoT revenue	*$24.0m*	*$18.2m*	*+31.6%*
ECR2 motor revenue	*$22.5m*	*$17.8m*	*+26.3%*
ECR legacy motor revenue	*$13.4m*	*$20.6m*	*-35.2%*
Gross profit	$16.6m	$14.3m	+16.7%
Gross margin %	27.0%	24.3%	+2.7%
EBITDA	$4.22m	$2.46m	+71.2%
EBIT	$1.51m	$0.45m	+233.6%
Profit (loss) for the year	$0.45m	($0.71m)	+$1.16m
Operating cash flows	$2.99m	$1.85m	+61.5%

Revenue grew 5% in 2019, to $61.7m. Revenue from new products improved 27%, with IoT products up 32% and the ECR2 motor platform up 26%. Consistent with earlier guidance revenue from legacy motors declined 35%. The company sees continued sales opportunities for its legacy motors albeit at a lower volume level.

Gross margin improved from 24.3% to 27.0% reflecting lower unit costs for Wellington products and improved product mix. IoT hardware and data services contributed a growing share of Wellington's revenue and margin contribution.

Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) was $4.2m compared to $2.5m in 2018. The current year includes a $0.5m gain arising from a change in fair value of the contingent consideration payable for the acquisition of iProximity Pty Limited (fair value change). EBITDA excluding this fair value change was $3.8m, towards the higher end of guidance and a 52% improvement over 2018.

The company achieved earnings before interest and taxation (EBIT) of $1.5m compared to $0.5m in 2018. Excluding the fair value change, EBIT was $1.0m, a $0.6m improvement over 2018.

The company recorded a first ever full year bottom line profit of $0.4m, a $1.2m improvement on the prior year.

In November 2019, the company completed a 1:5 rights issue raising $5.2m. The issue was oversubscribed. The capital is being used to fund the launch of its new ECR2+ motor, develop and launch new IoT products, and support customer acquisition in the new food service market. It enabled the company to repay its remaining high interest debt. $1.5m had been paid to Onimeg Investments in September 2019 and in March 2019 $0.5m was paid to Smartshares. In December 2019, the company repaid Onimeg Investments and Meta Capital $1.0m and US$0.6m respectively. The only loan

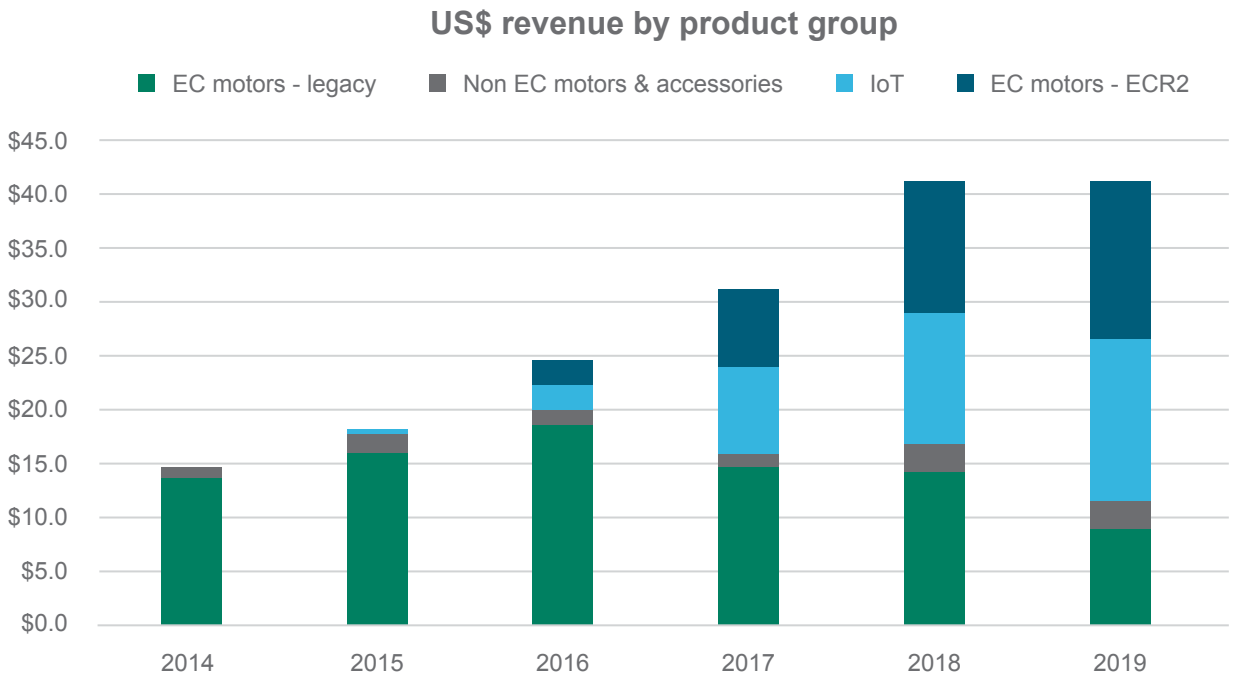
outstanding at balance date was to BNZ, with $1.4m drawn under a $2.0m trade finance facility.

Wellington continues to look for technology partners and customer partnerships where it can access new IoT technologies or gain access to new sales channels in the food and beverage market. In October 2019, the company announced a strategic partnership with a large North American refrigeration manufacturer, supplying specially designed Connect SCS hardware and data services. Product development is expected to occur in the first nine months of 2020 with revenues likely to commence in fourth quarter 2020.

Revenue

New Zealand dollar revenue for the year ended 31 December 2019 was $61.7m, compared to $58.8m in 2018, a 5% increase.

The composition of Wellington's revenue has changed over the last four years as the focus has moved towards IoT products. The company has become less dependent on its legacy motors. Revenue growth from IoT and new motor products has been masked by the decline in legacy motor sales and this factor is likely to recur in 2020.



Wellington Connect IoT

Revenue billings from Connect IoT products and services, including Connect SCS hardware, data services, and iProximity software was $24.0m, a $5.8m increase over 2018. Invoicing of IoT data services increased 32% from $2.1m to $2.7m.

$0.9m of data billings were recognised for the year compared to $0.6m in 2018. Data services are multi-year contracts and revenue is recognised progressively over the term of the contract, typically from five to ten years. The amount of unrecognised IoT data services revenue held on the balance sheet at December 2019 was $4.3m, to be recognised over

the duration of data contracts. Connect SCS hardware volumes increased 17%, with revenue 28% higher than for 2018.

The company continued to work with a number of customers on iProximity marketing services trials, with a focus on food and beverage.

Wellington ECR motors

ECR2 motor unit sales were 20% higher than for 2018 with revenue at $22.5m compared to $17.9m in 2018. This was primarily due to increasing demand for its ECR2 product in the USA market.

The legacy ECR82 and ECR1 motor business declined 35% in the year to 582,000 units compared to 945,000 units in 2018. This was mainly due to a sourcing change by a major beverage brand. The company is seeing a shift in the bottle cooler market towards very low-priced EC motors from new Chinese-based manufacturers, although the recent Coronavirus emergency may result in some of Wellington's customers wanting to diversify away from sole reliance on Chinese supply chains. Given this change in market pricing, the company is choosing to compete selectively.

While the legacy motor business is declining, growth in the ECR2 motor business, predominantly sold into food service and non-bottle cooler refrigeration, remains robust at a 3-year CAGR of 100%. Overall, the growth in revenue from ECR2 and IoT products continues to exceed the decline in legacy motor products.

Sales regions

Latin American revenue increased 5% to $42.1m from $40.2m, with growth delivered from new Connect IoT customers in Central and South America, offset somewhat by the decline in legacy motor business.

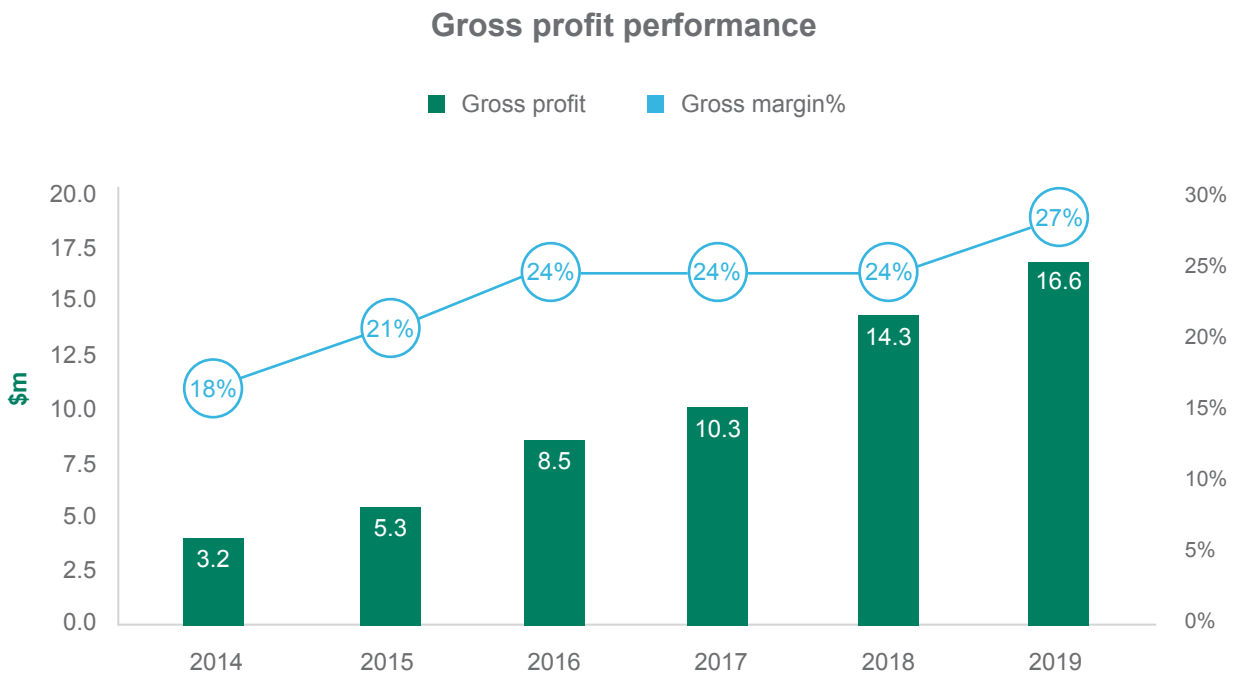
Wellington's revenue from the USA and Canada increased 12% to $11.3m compared to $10.1m last year. ECR2 sales were particularly strong in the USA especially with the company's largest refrigeration customer, and through the East West sales distribution channel. While Connect SCS sales are not yet significant in the USA and Canada, installation and training activities continued with several beverage bottlers in the region.

Revenue from the Asia-Pacific (APAC) increased 5% this year to $4.5m from $4.3m in 2018. The increase in APAC revenue was the result of increased Connect SCS volumes for the Australian market. Motor volumes declined in 2019 as most refrigeration manufacturers in the Asia region continued to prioritise cost over energy efficiency and use non-energy efficient shaded pole motors. This dynamic is expected to continue.

Europe, Middle East and Africa (EMEA) revenue declined 10% to $3.8m. Several new supermarket display case customers have recently been won for the ECR2 fan pack product, so an improved revenue performance is expected in 2020.
The EMEA region has different requirements for IoT solutions, with a primary focus on 'always on' cellular connectivity solutions. The company expects its new Connect Network product, due for launch in 2021, will enable to develop customer opportunities in this region. EMEA remains a target for future IoT and ECR2 motor growth and will require further in-region investment in products tailored for that region, plus sales and technical marketing skills.

Gross margin

Gross margin for 2019 was 27.0% compared to 24.3% in 2018. Gross profit dollars improved by $2.3m reflecting increasing sales of higher margin IoT products and services and lower hardware costs. New products slated for launch in 2020 include a new connected controller, a retrofittable IoT solution, and the higher powered ECR2+ motor. These products are intended to ensure the company can continue to grow without impacting gross margin %.

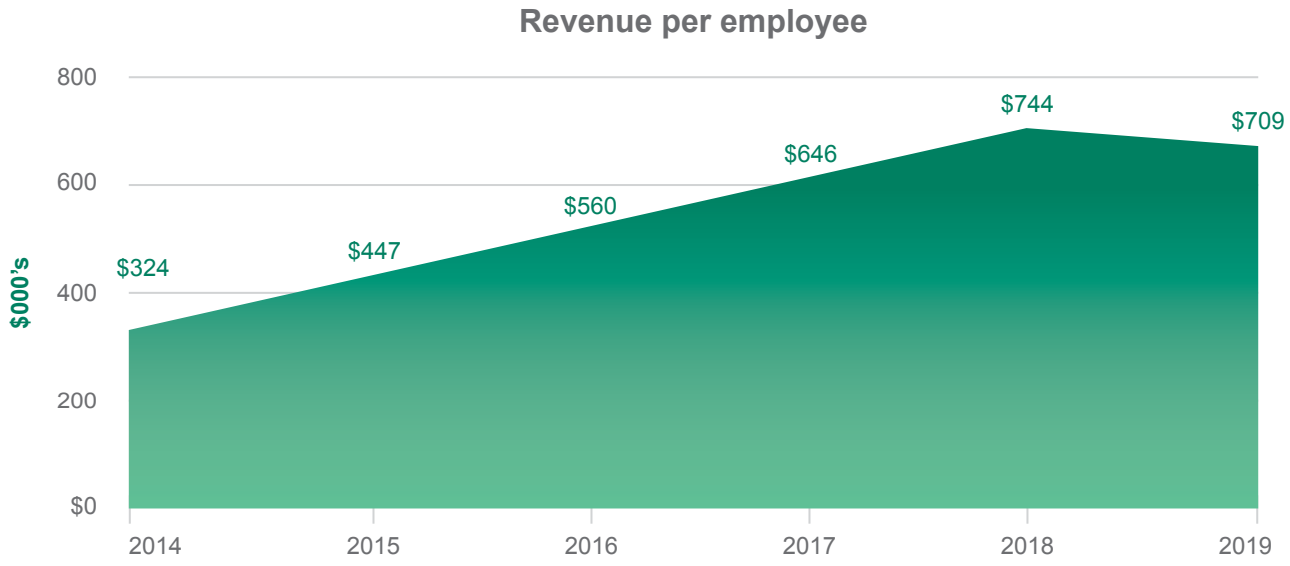


Operating costs

Operating spending increased as the company continued to invest in the skills and infrastructure required to support a broader product range and expanding customer base. New skills were added in areas such as customer management, iProximity marketing services and IoT software development. Wellington expects to increase investment in IoT software development and customer-facing skills to facilitate the ongoing expansion of its software services and hardware product offerings. Part of this investment is for new product and service development, and will therefore be capitalised, but nevertheless the broadening of Wellington's product range and sales and marketing efforts will see operating costs continue to grow in 2020.

Operating costs for the period amounted to $12.4m, or 20% of revenue, compared to $11.9m and 20% of revenue in 2018.

Revenue per employee decreased slightly from $744,000 to $709,000 due to additional headcount in 2019 and modest increase in revenue.



Product development

The company invested $3.2m (2018 - $2.2m, including $0.5m from the iProximity acquisition) in new product development, most of which related to the new ECR2+ motor, Connect Monitor (a battery-powered retrofit product), Connect Network (an 'always on' IoT network hub) and various apps and software tools (to provide digital services). 2018 development activity was adversely impacted by time spent on industry wide component supply issues. The increased investment in 2019 also reflects additional development resources that have been employed.

The result for the year includes $290,000 for the impairment of previously capitalised cost for development of a new motor product for East West Manufacturing. The motor was developed pursuant to an agreement with East West who contributed to the cost of the development. The product is complete and is being offered to potential customers, but Wellington has not been provided with sales forecasts that would support the carrying value. The capitalised cost has been fully impaired.

Cash and working capital performance

Cash at 31 December 2019 was $3.5m compared to $0.9m at 31 December 2018. Net cash (defined as cash balances net of bank and other loans) at 31 December 2019 was $2.0m versus net debt of $3.0m at 31 December 2018. The significant improvement in Wellington's net cash position is due to the exercise of share options by employees and the recently completed 1:5 rights issue.

Operating cash flows for 2019 amounted to $3.0m, up from $1.8m for 2018. Net operating and investing cash flows amounted to a $0.8m outflow.

Inventory management continued to be an area of operational focus in 2019, with 8 inventory turns achieved in 2019 down from 11 turns the prior year. The company increased its inventory position to ensure it maintained competitive lead-times with customers and partly as a result of declining legacy motor demand. The company is working with its manufacturing partners and customers to reduce levels of inventory held for its legacy products.

The average number of days sales in trade receivables during 2019 was generally in the 70-80 days range, with some customers requiring up to 120 days terms. Extended payment cycles, above 100 days, are expected to continue with some customers for the foreseeable future.

The company secured a $1.5m trade finance facility from the BNZ in 2018 which was undrawn until early 2019. The facility was increased to $2.0m in May 2019. This has strengthened the company's cash position and liquidity.

In November, the company successfully completed a 1:5 rights issue raising $5.2m. $0.6m was also raised through employees taking up their entitlements under the company's employee share option schemes. Funds were used in part to repay high interest rate loans from Smartshares Limited, Onimeg Investments and Meta Capital.

2019 strategic priorities

The company's Vision 2023 objective is to grow revenues to $100m. This is expected to be achieved by developing new IoT and EC motor products, developing new customers in existing food and beverage markets, and accessing adjacent markets such as food service. Growth is assisted by leveraging the technology acquired through iProximity to develop digital marketing services for food and beverage customers.

The priorities for 2019 were:

1. Successful execution of several new customer IoT adoption programs, including an expansion of the successful OEM program launched with SKOPE Industries;
    - The company announced a new IoT program with a large North American refrigeration manufacturer. This program includes development of a new Connect SCS hardware solution to support the customer's business services strategy.

2. Expansion of engineering resources to ensure the development of new IoT hardware and software and EC motor products necessary to fuel top line growth;
    - The company added IoT software developers, data analysts and electronic design engineers to work on new IoT hardware and software solutions. It is anticipated these new solutions will launch in 2020 and early 2021.
3. Add expertise that enables the company to deploy and support digital marketing within the food and beverage market and enter new adjacent markets;
    - The company added new proximity marketing business development capability in Mexico, a region that continues to show promise for the adoption of marketing solutions.
4. Develop new markets and customers for the Wellington iProximity Smart Cities platform;
    - The funnel of potential business for the iProximity platform increased significantly, mainly in the food and beverage market. Several advanced discussions continued in areas such as sports stadiums and non-cooler point of sale.
5. Plan and commence implementation of a new company-wide ERP system.
    - The transition to a new ERP system was pushed back by a year to 2020 in order to conserve capital. A mapping of the business system has been completed and the project will restart in early 2020.

New priority areas for 2020

1. Successful launch of new products; Connect Monitor retrofit solution, cost optimised Connect SCS controller and ECR2+ motor.

2. Start the new IoT partnership with North American cooler manufacturer, including development of special Connect SCS solution and customised apps.

3. Launch new Connect SCS software products; including enhanced Connect Retailer app and Connect Report for cooler fleet management.

4. Develop new markets and customers for the Wellington iProximity marketing platform.

5. Develop software design and support capability closer to customers.

Corporate Social Responsibility

In 2019 the company successfully completed an internal audit of its corporate social responsibility (CSR) processes and procedures. The audit was facilitated by EcoVadis, a well-recognised global provider of CSR ratings and scorecards. The methodology used by EcoVadis is built on international CSR standards including the Global Reporting Initiative, the United Nations Global Compact, and ISO 26000, covering 198 spend categories and 155 countries.

Wellington was awarded a Silver Medal by EcoVadis in recognition of its CSR performance, which puts the company in the top 19% of companies assessed by EcoVadis in this industry sector. Having a robust CSR program is a key requirement of our large food and beverage brand customers in order to be integrated into their business and supply chain. Some of the company's largest beverage brand customers use and recommend EcoVadis as the external CSR audit provider.

The audit covered areas of the business such as product environmental and regulatory compliance, sustainable procurement practices, environment, labour & human rights practices including those of the company's suppliers, employee reward and recognition practices and the company's business ethics and governance processes.

The Board and management believe that having a strong CSR program with associated policies and practices is not

only essential to doing business with large global customers but is also the right way to run the company. Wellington will continue to subscribe to the EcoVadis audit program and has plans in place to continue to achieve strong results in this area.

Governance

Dr Lisbeth Jacobs has announced her intention to retire as a director at the end of February 2020. The Board and Wellington team would like to recognise and thank Lisbeth for her contribution to the Board over the last 8 years and her roles as Chair of the company's Innovation and Technology, and Audit & Risk committees.

In February and March 2019, the company appointed John Scott and Keith Oliver to the Board as non-executive directors. Both bring considerable operational, strategic and financial experience managing companies in New Zealand and international IoT and communications technology markets, including big data and cloud.

Tony Nowell, Chairman of Wellington Drive Technologies for 10 years, retired as a director in March 2019.

2020 outlook

The Wellington team is working on new IoT products and the ECR2+ motor which are expected to continue to fuel the growth of its food and beverage solutions business. These new products are planned for launch by fourth quarter 2020. Major new customer programs include the previously announced IoT partnership with a large North American cooler manufacturer. Hardware sales to this new customer are expected to start in fourth quarter. To support these new product and customer launches the company will continue to invest in software and hardware development, along with customer project skills.

Wellington's initial forecasts for 2020 show the potential for revenue growth of around 15% and EBITDA around $4.5m.

The company is monitoring supply chain delays as a result of the Coronavirus situation. All Chinese manufacturers experienced a two-week mandatory delay before restarting operations following Chinese New Year, including Wellington's Chinese manufacturing partner, Match-Well. The company's main manufacturing facility, the East West factory in Vietnam is not directly impacted however is seeing delays in certain components sourced from China. While these delays are not expected to materially impact the full year outlook, the company does anticipate lower than forecast first quarter revenue with some revenue catch up during the second quarter.

In addition to the impacts of the Coronavirus, the forecasts are dependent on several new product and new customer introductions planned during 2020, a NZD/USD exchange rate of 0.65c and broader global trade and macroeconomic conditions. For the new product launches specifically, there are risks around ensuring completion of product development on schedule, dependencies on spend decisions that the Board may make around outsourcing of IoT product development to accelerate revenue, and the timing of customer onboarding and product adoption meeting Wellington's expectations.

The Board and management team would like to thank staff, shareholders, customers and suppliers for their support. We look forward to a successful 2020 and continued growth for the company over the next several years.

John McMahon
Chairman

Greg Allen
Chief Executive Officer

Note 1: EBITDA (i.e. Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. The company considers that it is a useful financial indicator because it avoids the distortions caused by the differences in amortisation and impairment policies.

Wellington's People

Cheryl Camargo

Commercial Manager, Brazil

I am based in Brazil, where I am part of a team of four people responsible for developing the South American market. My role gives me the chance to experience new challenges every day, from helping to solve customers' problems to ensuring the company delivers for its customers.

Being part of the Wellington team means actively participating in building the company, contributing to strategy development and managing operations. I really enjoy the diversity of our people, different cultures, strategic ideas and products. We have been able to build a cohesive, skilled and bold team with successful results and a promising future.

Ali Karahasanoglu

Sales Director, Europe/Eurasia

I am based in the Istanbul office and lead the sales activities of the Europe, Middle East and Africa regions. My key responsibilities include customer relationship management, business development, commercial, logistics and financial activities within the region.

In recent years we have successfully entered the European market with display cases for commercial refrigeration and supermarkets, with the help of our new series of fan motor solutions. Our aim is to continue progressing in this area, with focus on the IoT segment and proximity marketing solutions.

I am one of the longest serving members of the team and have witnessed the journey from the early technology concept days to now leading our industry with commercial products and servicing the world's biggest brands and manufacturers. As part of the sales operations of the company, I am enjoying the success we have achieved and look forward to expanding into new markets in the future.

Anna Clevenger

Global Customer Operations Manager

I am based in the United States and manage the operational aspects of the deployment and implementation of Connect SCS for North American beverage brands. I work closely with customers in the training and utilisation of Wellington's Connect IoT system, which helps customers generate insights into their cooler fleet and deliver value to their organisations. I also work with our regional teams to ensure global best practices and help standardise IoT product deployment processes.

With the team in New Zealand, I assist in creating global training materials, provide feedback on all aspects of the IoT deployment process, and support the regional engineering staff.

Our Connect IoT ecosystem is a global success and we continue to see our business grow in new areas throughout the USA and Canada.

Innovation

As Wellington enters 2020, it has established itself as a global leader in IoT for commercial beverage refrigeration equipment, with a market-leading, advanced IoT solution that has sold over 1 million units in the first three years since introduction.

The company's motor business continues to grow, with the ECR2 motor notching up sales in excess of 2 million units. Wellington will launch the ECR2+ in 2020 - a new variant of the ECR2 that will take this product into a range of new applications.

One of the most exciting aspects of Wellington's IoT business is that the products deployed to date are the first stage of a range of solutions. Over the course of the next twelve to eighteen months new products will be launched which we expect will capture more market share and help win new customers.

Wellington's products start life with customer discussions and the understanding of a customer's business problem. This is an iterative process of research and development to deliver a solution that solves the customer's needs. As a result of these customer discussions, Wellington is researching new areas such as machine learning and cellular communications technologies to broaden its IoT product offering, increase the value customers derive from its solutions and extend its offerings into new food and beverage markets.

New products

In 2020 the company expects to launch four new hardware products, its first major product launches since the 2016 launch of ECR2 and Connect SCS.

ECR2+: This is a more powerful version of the class leading ECR2 refrigeration fan motor. Both ECR2 and ECR2+ motors have advanced electronic controls resulting in very low noise and high efficiency. Wellington's unique control system allows motor programming, variable speed operation and programmable features such as reversible three-speed operation.

Connect Monitor: A battery-powered retrofit product that provides data collection and proximity marketing capabilities in a device easily retrofittable to any existing "non-connected" fridge or freezer. This provides customers a way of connecting their installed fleet to the same Connect IoT Cloud as their new coolers which are fitted with Connect SCS.

Connect Monitor

Connect SCS (lower functionality version): This new version of Connect SCS is a simpler, refrigeration controller that extends the benefits of connectivity to a wider range of end markets. This product will have data collection and fleet management features tailored to markets where cost has been a barrier to connectivity solutions.

Connect Q-Tag: Wellington has started trials with its Connect Q-Tag. The Connect Q-Tag provides consumer and retailer engagement at a point of sale location without the need for a mobile app. The Connect Q-Tag combines QR code and NFC tag technologies, integrated with Connect Cloud and iProximity Marketing Cloud. Using 'tap or scan' interaction with a consumer or retailer, Q-Tag allows tracking of an unpowered point of sale location (such as a shelf or a poster), providing location and marketing information to improve point of sale productivity. A 'tap or scan' action from a consumer will result in location based promotional offers or product information as part of a direct-to-consumer campaign or program.

Beyond 2020

Connect Network: Targeted for launch in 2021, Connect Network is an 'always on' IoT network hub, utilising cellular technology. It allows data captured by the Connect product range to be transmitted in real time to the Connect Cloud for analysis and reporting. Connect Network will provide real-time monitoring, alarms and alerts for management of critical food temperatures and equipment uptime.

The company is part of a food and beverage IoT growth trend; where coolers and other point of sale equipment are increasingly being connected to the Cloud to enable retail experiences to be monitored and managed. Across many market verticals, customers are rapidly connecting their equipment and seeking more data on equipment operation and sales productivity. Customers are increasingly making the business process changes needed to act on this new data although the complexity of legacy ERP and sales management systems for many corporations means this has been a slower process than Wellington initially expected.

Wellington expects to be at the forefront of the products needed to connect customers' retail equipment to the Cloud and provide the software tools to monitor and manage the retail experience.

Wellington's rebranding project

Over the last four years Wellington has successfully changed its business strategy to become an innovator in food and beverage IoT, alongside its new ECR2 motor offering. This change in business strategy is not reflected in the historic Wellington Drive Technologies brand name which primarily relates to the company's origins as a pure-play motor company. In order to support the changing business focus, 2020 will see the company work on a refreshed brand. This will involve a new company name, with updated brand values and purpose to better reflect the direction of the company as a leader in solutions to the food and beverage industry.

Directors

Mr John McMahon

Chairman
Non-Independent Director

Non-executive
Appointed October 2014

Mr McMahon has over 25 years' experience in the Australasian equity markets, predominantly as an equity analyst covering the telecommunications, media, gaming, transport and industrials sectors. Previous roles include Head of Research and Head of Equities for ABN AMRO NZ and Managing Director of ASB Securities. Mr McMahon is based in Sydney and manages his own investment portfolio. He is a director of two other NZX-listed companies: Solution Dynamics Ltd (SDL), and NZX Ltd (NZX), and holds a Bachelor of Commerce (Honours), an MBA and is a CFA (Chartered Financial Analyst) charter holder.

Dr Lisbeth Jacobs

Independent Director

Non-executive
Appointed May 2013, Resigned 28 February 2020

Dr Jacobs, a native of Belgium, holds a PhD in Materials Engineering from the University of Auckland and a Master of Science in Materials Engineering from the Katholieke Universiteit Leuven (Belgium), where she also completed a post-graduate degree in business studies. Dr Jacobs has completed the Executive General Management programme at CEDEP-INSEAD (France).

Dr Jacobs is currently General Manager Innovation at Fletcher Building. Group Innovation is a team within Fletcher Building that delivers innovation across all aspects of the business, including product, process, digital, customer engagement and business model innovation. Prior to joining Fletcher Building in July 2019, Lisbeth was Executive Director International at UniServices, the wholly owned commercialisation company of the University of Auckland, where she was responsible for the portfolio of activities of UniServices serving multinational clients, government agencies and companies around the world. While at UniServices, Lisbeth established and was Chairperson of The University of Auckland Innovation Institute China in Hangzhou, a Wholly Foreign Owned Entity (WFOE). In that role she was a member of the Board of Energia Potior, a joint venture between UniServices and Yunca, which delivers technology solutions to the global aluminium industry. Before joining UniServices, Dr Jacobs was Director of Strategy and Development at The Icehouse, following a 13-year career with global corporate Bekaert, a world market and technology leader in steel wire and steel cord products and applications. Dr Jacobs held a range of positions at Bekaert including business development, strategy, mergers and acquisitions and research and development leadership, both in Belgium and China. Dr Jacobs has also been Honorary Consul of Belgium since August 2013.

Mr Gottfried Pausch

Independent Director | Non-executive
Appointed December 2013

Mr Pausch is an Independent Director of McKay Ltd (Whangarei) and Blackhawk Tracking Systems Ltd (Auckland) and was until the end of December 2019 the Executive Chairman at AuCom Electronics Ltd (Christchurch). Mr Pausch holds an electrical engineering degree from Austria and a master's degree in business administration from Duke University in the USA. He is a director for one of the National Science Challenges, an initiative of the Ministry of Business, Innovation and Employment (MBIE). The Science for Technological Innovation National Science Challenge aims to tackle New Zealand's big high-tech challenges and to grow the economy. The research areas include materials, manufacturing and design, sensors, robotics and automation, plus IT data analytics and modelling.

Mr Pausch was the former CEO at Actronic Technologies and an executive in residence at The Icehouse. This follows a 22-year career with German engineering and electronics conglomerate Siemens, one of the world's leading suppliers of products, solutions and services in the field of technology. During this period, he held the positions of CEO Siemens Energy Services Ltd and managing director of Siemens New Zealand.

Mr John Scott

Independent Director | Non-executive
Appointed February 2019

Mr Scott is CEO for Invenco, a world leader in payments & forecourt solutions in the petroleum space. He is also a non-executive director for Navico, a marine electronics specialist company. He has previously had a range of c-suite roles across sales, marketing, operations and product management with Navico, Brunswick and Navman. Mr Scott also had business development engineering and project engineering roles with Ericsson/Volex (communications). He graduated from the University of Auckland in 1997 with a Bachelor of Engineering (BE Mech). Mr Scott has 20 years of global experience in managing large multi-location go to market, operations & design teams – with deep pricing experience across all channels & markets. He has been actively involved in multiple acquisition events and fundraising activities. Mr Scott has an in-depth knowledge of the rapidly developing dynamics of global electronics supply, big data and IoT growth opportunities, and has operating experience in the Asia, European and North American markets.

Mr Keith Oliver

Independent Director | Non-executive
Appointed March 2019

Mr Oliver was appointed Director at Wellington in March 2019. He is also an Independent Director at Rakon Limited and Chairman of Blackhawk Tracking Limited. Mr Oliver has over 20 years' experience in CEO, director and chairman roles, and has extensive experience expanding technology businesses in USA, South America, Europe, Asia and Australia. Mr Oliver was Chairman of Actronic Technologies for 10 years, and Chairman of Compac Sorting Equipment Limited, where he also held leadership and board director roles. Mr Oliver has crown company governance experience in science and health, having worked as a Director of New Zealand's Institute of Environmental Science and Research Limited (ESR). Prior to his governance roles, Mr Oliver had a 20-year career in telecommunications, broadcasting, strategic planning and private equity investment in New Zealand, Australia and Europe.

Executive Management

Greg Allen

Chief Executive Officer

Mr Allen was appointed CEO of Wellington in November 2011. For 30 years Mr Allen has worked internationally leading business development, supply chain and manufacturing organisations in Europe, North America and Asia. He is an experienced business leader, having previously been responsible for the industrial and green technology business unit for Celestica, a highly regarded multinational supply chain services provider. Prior to this, Mr Allen led a Canadian public company focused on digital communications products and held senior roles with global contract manufacturing and engineering services companies. Mr Allen brings broad market experience covering many industrial segments such as telecommunications, aerospace, capital equipment, consumer products and enterprise computing.

Steve Hodgson

Senior Vice President Commercial

Mr Hodgson joined Wellington in 2008 as Head of Strategy and following that as the Company's Chief Financial Officer. Mr Hodgson was appointed Senior Vice President Commercial in 2014. He leads the company's global sales and customer teams and is responsible for Wellington's commercial, product strategy and corporate development activities. Prior to joining Wellington, Mr Hodgson worked in equities research for 20 years, where his expertise included the telecommunications and primary sectors.

David Howell

Chief Technical Officer

Mr Howell is currently Chief Technical Officer and is responsible for the company's future technology roadmap as well as managing the product engineering and software development teams. Mr Howell joined Wellington as Engineering Manager in 1999. He has previously worked in new product development roles for Rover Group (UK), Fisher and Paykel Healthcare Corporation Ltd and Tru-Test Ltd. He holds a BE (Hons) and Dip Bus from the University of Auckland and an MSc from Cranfield (UK). He is listed as inventor on 14 families of international patent applications, including several of Wellington's core motor patents.

Howard Milliner

Chief Financial Officer

Mr Milliner was appointed as CFO in November 2012, he oversees all financial and administrative operations and helps to shape the overall strategy and direction for the company. He holds a BCom from the University of Auckland and is a chartered accountant, with accounting experience gained working for Ernst & Young London. For 14 years he held both CFO and CEO roles for NZ-listed engineering business, Mercer Group. Mr Milliner has extensive experience in managing financial operations and business acquisitions and divestments.

Marc Tinsel

Vice President, Supply Chain and Operations

Mr Tinsel is Vice President, Supply Chain and Operations, responsible for Wellington's manufacturing operations including production engineering, supply chain, logistics and revenue planning. Mr Tinsel joined Wellington in 2013 as Programme Manager for sustaining engineering, was promoted to Head of Manufacturing in 2015 and Vice President in January 2019. Prior to Wellington, he worked as a Project Manager for Electrix, managing multiple projects, budgets and multidisciplinary teams. Mr Tinsel has also worked for International Safety Testing Laboratories and was based in Auckland and London as a Senior Manager and regulatory approvals report signatory for 15 years.

Peter Barnes

Global Quality Leader

Mr Barnes is currently Global Quality Leader, responsible for product quality, quality improvement and all company processes and procedures. Mr Barnes joined Wellington in 2003 as a Senior Electronic Design Engineer. He held many positions within the engineering team before changing his career direction and moving into quality management. Prior to starting at Wellington, Mr Barnes worked at a start-up company as a Design Engineer, developing various water temperature control valves for domestic and industrial applications.

David Burden

Vice President, Group Marketing & IoT Products

Mr Burden joined Wellington in 2018 as part of the iProximity acquisition. He is an Australian entrepreneur with 30 years of experience leading start-ups and successful technology businesses. He founded and led what became Australia's largest and best-recognised interactive and mobile services company, Legion Interactive. In 2008, he joined the ASX-listed digital media company Webfirm Group (now Adslot) as group CEO. Within three years he took it from a valuation of A$2m to a peak of A$120m. In December 2013, Mr Burden and Rohan Lean established an exciting new IoT company, iProximity, with a focus on proximity marketing and digital information services. iProximity was acquired by Wellington in July 2018.

In Memoriam

Erick Layseca-Flores: Vice President and General Manager, Latin America

In December 2019 our dear friend and colleague Erick Layseca-Flores passed away after a short illness. Erick was a long serving team member, working for Wellington for 18 years, most recently as Vice President, Latin America. Erick personally built the company's Latin American business from its early beginnings to close to $20m of sales. His passion for customers, loyalty to his friends and colleagues and eternal optimism about the business was a hallmark of Erick's character. The customer relationships Erick built in the region are part of the foundation for Wellington's future success as is the strong team he developed over the years.

The team at Wellington deeply appreciate Erick's contribution to the success of the company and misses him dearly. The company offers its deepest condolences to Erick's wife Zaniah, his mother Celia and his brothers and extended family.

Rest in Peace Erick.

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Note	**2019 $000s**	2018 $000s
Revenue	2.2	**61,719**	58,761
Cost of sales		**(45,085)**	(44,505)
Gross profit		**16,634**	14,256
Other income	2.3	**18**	151
Operating expenses	2.4	**(12,433)**	(11,943)
Earnings before interest, taxation, depreciation, amortisation & impairment		**4,219**	2,464
Depreciation	3.2	**(585)**	(536)
Amortisation & impairment	3.3	**(2,123)**	(1,475)
Profit before interest & taxation		**1,511**	453
Finance income	4.2	**19**	7
Finance expenses	4.2	**(890)**	(912)
Profit / (loss) before income tax		**640**	(452)
Income tax expense	2.5a	**(192)**	(261)
Profit / (loss) for the year		**448**	(713)
Other comprehensive income:			
Items that may be reclassified subsequently to the profit or loss:			
Exchange differences on translation of foreign operations	4.5b	**(322)**	306
Cash flow hedge, net of tax		**-**	(18)
Other comprehensive (loss) / income for the year		**(322)**	288
Total comprehensive income / (loss) for the year		**$126**	($425)
Profit / (loss) for the year attributable to the Owners of the company		**448**	(713)
Total comprehensive income / (loss) attributable to the Owners of the company		**126**	(425)
Basic earnings per share – cents	2.6	**0.17**	(0.28)
Diluted earnings per share – cents	2.6	**0.16**	(0.28)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Movements in Equity

for the year ended 31 December 2019

2019	Note	Contributed equity $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance at 1 January 2019		**123,627**	**(115,186)**	**(2,067)**	**6,374**
Comprehensive income					
Profit for year		**-**	**448**	**-**	**448**
Other comprehensive income					
Exchange differences on translation of foreign operations	4.5b	**-**	**-**	**(322)**	**(322)**
Income tax relating to other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income		**-**	**448**	**(322)**	**126**
Share option compensation expensed	4.5a	**-**	**-**	**6**	**6**
Contributions of equity, net of costs	4.3	**6,601**	**-**	**-**	**6,601**
Balance at 31 December 2019		**$130,228**	**($114,738)**	**($2,383)**	**$13,107**

2018	Note	Contributed equity $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance at 1 January 2018		123,608	(114,106)	(2,367)	7,135
Adjustment on adoption of NZ IFRS 9, NZ IFRS 15 and NZ IFRS 16 (net of tax)		-	(367)	-	(367)
Restated total equity at 1 January 2018		123,608	(114,473)	(2,367)	6,768
Comprehensive income					
Loss for year		-	(713)	-	(713)
Other comprehensive income					
Exchange differences on translation of foreign operations	4.5b	-	-	306	306
Cash flow hedge		-	-	(18)	(18)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(713)	288	(425)
Share option compensation expensed	4.5a	-	-	12	12
Contributions of equity, net of costs	4.3	19	-	-	19
Balance at 31 December 2018		$123,627	($115,186)	($2,067)	$6,374

The above Consolidated Statement of Movements in Equity should be read in conjunction with the accompanying notes.

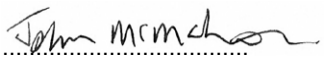
Consolidated Statement of Financial Position

as at 31 December 2019

	Note	2019 $000s	Restated 2018 $000s
Current Assets			
Cash and cash equivalents	3.1a	**3,459**	933
Trade and other receivables	3.1b	**14,791**	17,978
Derivative financial instruments	6.4	**56**	-
Inventories	3.1c	**4,797**	4,890
Total current assets		**23,103**	23,801
Non-Current Assets			
Property, plant and equipment	3.2	**2,658**	2,854
Intangible assets	3.3	**12,147**	11,297
Total non-current assets		**14,805**	14,151
Total assets		**37,908**	37,952
Current Liabilities			
Trade and other payables	3.1d	**15,838**	20,212
Contract liability	2.2	**1,044**	620
Provisions	3.1e	**468**	415
Derivative financial instruments	6.4	**-**	10
Borrowings	4.1	**1,697**	4,148
Total current liabilities		**19,047**	25,405
Non-Current Liabilities			
Borrowings	4.1	**1,364**	1,494
Contract liability	2.2	**3,374**	2,352
Contingent consideration	6.1b	**1,016**	2,327
Total non-current liabilities		**5,754**	6,173
Total liabilities		**24,801**	31,578
Net assets		**$13,107**	$6,374
Equity			
Contributed equity	4.3	**130,228**	123,627
Accumulated losses	4.4	**(114,738)**	(115,186)
Other reserves	4.5	**(2,383)**	(2,067)
Total equity		**$13,107**	$6,374

For and on behalf of the Board

Director
28 February 2020



Director
28 February 2020

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Note	2019 $000s	2018 $000s
Cash flows from operating activities			
Receipts from customers exclusive of GST/VAT		**66,563**	54,973
Payments to suppliers and employees exclusive of GST/VAT		**(63,432)**	(52,058)
Interest paid	4.2	**(872)**	(912)
Interest received	4.2	**19**	7
Taxation paid		**(601)**	(274)
Net GST/VAT received		**1,310**	113
Net cash inflow from operating activities		**2,987**	1,849
Cash flows from investing activities			
Payments for property, plant and equipment	3.2	**(411)**	(836)
Proceeds from disposals of property, plant and equipment	3.2	**12**	-
Payments for intangible assets	3.3	**(3,347)**	(1,690)
Payment on acquisition of iProximity Pty Limited	6.1b	**-**	(1,367)
Net cash outflow from investing activities		**(3,746)**	(3,893)
Cash flows from financing activities			
Cash proceeds from ordinary shares	4.3	**5,757**	19
New loans	4.1	**8,328**	3,643
Loan repayments	4.1	**(10,844)**	(2,348)
Finance lease borrowing		**175**	251
Lease repayments	6.5	**(282)**	(247)
Net cash inflow from financing activities		**3,134**	1,318
Net increase / (decrease) in cash and cash equivalents		**2,375**	(726)
Cash and cash equivalents at the beginning of the financial period		**933**	1,563
Effect of exchange rate movements on cash		**151**	96
Cash and cash equivalents at end of year	3.1a	**$3,459**	$933

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1. Basis of preparation

This section sets out the group's significant accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a note, that policy is stated in the note to which it relates.

1.1 General Information

Wellington Drive Technologies Limited (the "company") and its subsidiaries (together the "group") develop Internet of Things (IoT) solutions and manufacture, market and sell energy saving, electronically commutated (EC) motors, connected controllers and fans for worldwide use.

The company is a limited liability incorporated and domiciled in New Zealand. The address of its registered office is 21 Arrenway Drive, Rosedale, Auckland 0632 New Zealand. The company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 February 2020.

1.2 Summary of Significant Accounting Policies

(a) Basis of preparation

These consolidated financial statements of the group have been prepared in accordance with generally accepted accounting practice in New Zealand. The group is a for-profit entity for the purposes of financial reporting. The consolidated financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Comparative amounts for 2018 were required to be restated to account for the acquisition of iProximity Pty Limited. See notes 3.3 and 6.1 for details of the adjustments made to the 2018 comparatives.

Entities reporting

The financial statements are for the consolidated group which is the economic entity comprising of Wellington Drive Technologies Limited and its subsidiaries.

Historical cost convention

These financial statements have been prepared under the historical cost convention except for derivative financial information and contingent consideration which is measured at fair value.

New standards, amendments and interpretations not yet adopted

There are no new accounting standards, amendments and interpretations issued that are mandatory for future periods that are likely to have a material impact on the financial statements prepared by the company.

Going concern assumption

In the year ended 31 December 2019 the group significantly improved its net cash position due to the exercise of share options by employees and to a fully subscribed 1:5 rights issue raising $5.2m. Cash at 31 December 2019 was $3.5m (2018 - $0.9m) and net cash (defined as cash balances net of bank and other loans) was $2.0m (2018 – net debt of $3.0m).

The group reported a profit for the 2019 year of $448,000 (2018 - loss of $713,000) and the operating cash inflow for the 2019 year was $2,987,000 (2018 – cash inflow $1,849,000).

In assessing the adoption of the going concern principle in the preparation of the financial statements, the directors have reviewed and adopted the group future cash flow forecast (forecast) to 31 March 2021. In preparing the forecast, management also considered known events and conditions beyond 31 March 2021.

The group is forecasting for 2020 to be a year of further profit expansion with EBITDA higher than for 2019 and cash flows from operations that will support investing activities. This forecast includes judgments and estimates over key assumptions relating to future revenue, gross margins, operating costs and capital expenditure and the ability to manage those costs to respond to changes that might arise between actual and forecast cash flows over the forecast period. Management have considered several risk scenarios, including the potential impact of Novel Coranavirus (see note 6.8) and mitigating actions that would be undertaken in the event actual cash flows vary adversely from forecast. Given the nature of the judgments and estimates noted above and the management's ability to take mitigating actions, it is the considered view of the Directors that the group will have access to adequate resources to meet its ongoing obligations for at least a period of 12 months from the date of signing these consolidated financial statements.

On this basis, the Directors have assessed it is appropriate to adopt the going concern basis in preparing its financial statements.

(b) Principles of consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and can affect these returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets transferred and equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the group.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The company's functional currency is US Dollars because its purchase and sale of product is mainly denominated in US Dollars. Subsidiaries

and operations in the USA, China, Brazil, Turkey, Mexico, Italy, Australia and Singapore use their local currency as the functional currency.

The consolidated financial statements are presented in New Zealand dollars, rounded to the nearest thousand, which is the group's presentation currency. The presentation currency remains New Zealand dollars due to the company's shareholder base being concentrated in New Zealand.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

(iii) Foreign operations

The results and balance sheets of all foreign operations that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the Statement of Financial Position;
- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income as a separate component of equity.

(d) Critical accounting estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed in the following notes to the financial statements:

Area of estimation

- Going concern – forecasts – note 1.2a and note 6.8
- Deferred tax asset – recognition – note 2.5b
- Development costs – capitalisation of expenses and impairment testing – note 3.3
- Probability of contingent consideration targets being achieved – note 6.1b

2. Results for the year

This section focuses on the results and performance for the group and how those numbers are calculated.

2.1 Segment information

An operating segment is a component of an entity that engages in business activities from which it earns revenues and incurs expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer supported by the Management Team who report directly to the CEO.

(a) Reportable segments

The group is now organised on a global basis into two operating divisions – Motors and IoT. These divisions offer different products and services and are managed separately because they require different technology and marketing strategies. The group's chief executive officer reviews the financial performance of each division at least monthly. Each division is a reportable segment.

There are varying levels of integration between the segments. There are engineering and sales staff that support both segments as well as shared logistical and quality management services.

Information related to each reportable segment is set out below:

2019	Motors $000s	IoT $000s	Unallocated $000s	Total $000s
Revenue	**37,704**	**24,015**	**-**	**61,719**
Cost of goods sold	**(30,870)**	**(14,215)**	**-**	**(45,085)**
Gross profit	**6,834**	**9,800**	**-**	**16,634**
Gross margin %	**18.2%**	**40.8%**		**27.3%**
Other income	**-**	**-**	**18**	**18**
Operating expenses	**(2,252)**	**(3,564)**	**(6,617)**	**(12,433)**
EBITDA	**4,582**	**6,236**	**(6,599)**	**4,219**
Depreciation	**(199)**	**(47)**	**(339)**	**(585)**
Amortisation & impairment	**(789)**	**(1,334)**	**-**	**(2,123)**
Profit before interest & taxation	**$3,594**	**$4,855**	**($6,938)**	**$1,511**
Non-current assets				
Property, plant & equipment	**703**	**215**	**1,740**	**2,658**
Goodwill	**-**	**3,223**	**-**	**3,223**
Other intangible assets	**4,059**	**4,737**	**128**	**8,924**
Total	**$4,762**	**$8,175**	**$1,868**	**$14,805**

2018	Motors $000s	IoT $000s	Unallocated $000s	Total $000s
Revenue	40,518	18,243	-	58,761
Cost of goods sold	(32,660)	(11,845)	-	(44,505)
Gross profit	7,858	6,398	-	14,256
Gross margin %	19.4%	35.1%		24.3%
Other income	-	-	151	151
Operating expenses	(3,444)	(2,895)	(5,604)	(11,943)
EBITDA	4,414	3,503	(5,453)	2,464
Depreciation	(200)	(36)	(300)	(536)
Amortisation & impairment	(383)	(1,074)	(18)	(1,475)
Profit before interest & taxation	$3,831	$2,393	($5,771)	$453
Non-current assets (restated)				
Property, plant & equipment	676	154	2,024	2,854
Goodwill	-	3,223	-	3,223
Other intangible assets	3,909	4,042	123	8,074
Total	$4,585	$7,419	$2,147	$14,151

(b) Geographical segments

The group operates in three main geographical areas, although it is managed on a global basis.

Revenue from external customers by geographic areas	2019 $000s	2018 $000s
Americas	**53,457**	50,282
Asia / Pacific (APAC)	**4,485**	4,286
Europe / Middle East / Africa (EMEA)	**3,777**	4,193
Total	**$61,719**	$58,761

Revenue is allocated above based on the country in which the customer is located.

APAC revenue includes $223,000 (2018 – $143,000) from New Zealand customers.

Major Customers

The group has four major customers (defined as customers representing 10% or more of revenues) accounting for invoiced revenues of $30,285,000 (2018: four customers accounting for invoiced revenues of $31,395,000), all within the Americas geographic segment.

Total non-current assets	2019 $000s	Restated 2018 $000s
Americas	**34**	34
Asia / Pacific – mainly in New Zealand	**14,687**	14,019
Europe / Middle East / Africa	**84**	98
Total	**$14,805**	$14,151

Total non-current assets are allocated based on where the assets are located.

2.2 Revenue

	2019 $000s	2018 $000s
Sales of goods revenue – recognised at a point in time	**60,780**	58,171
Services revenue – recognised over time	**939**	590
	$61,719	$58,761

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, excluding GST / VAT, rebates and discounts and after eliminating sales within the group. The group disaggregates revenue from contracts with customers by geographical regions, which is detailed in note 2.1(b).

(a) Sale of Goods

The group manufactures and sells a range of energy efficient motors and IoT hardware to the food and beverage market. Sales are recognised when control has transferred to the buyer which is usually when delivery of the goods to the buyer pursuant to the Incoterms that apply is fulfilled, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered in accordance with the pre-agreed Incoterms between the group and the buyer, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products in accordance with the sales arrangement, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance and performance obligations under the contract with the customer have been satisfied.

Some of the sale of goods are subject to CIF (Cost, Insurance and Freight) Incoterms. The group considers these freight and insurance services to be a distinct service. For these sales, the total sales price is allocated to the separate performance obligations, being the product and the insurance and freight costs. Further, the group considers itself an agent only in the provision of the freight services. Revenue for the CIF element is recognised only to the extent of the margin for providing the agent services. However, there are limited sales under CIF terms and the impact on revenue is estimated to be minor.

The group has in-market distributors in China and Brazil to supply goods to buyers in those markets who require local delivery. These distributors transact as agents. The group is the principal in these transactions. Sales of product are recognised when these distributors deliver the product to buyers at which point control has passed to the buyer.

Products may be sold with retrospective volume rebates based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume rebates. Accumulated experience and customer knowledge are used to determine the rebate amounts using the expected value method and revenue is only recognised to the extended that it is highly probable significant reversals will not occur. The liability to pay volume rebates is recognised (included in trade and other payables) in respect of sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of 30 - 120 days which is consistent with market practice. A receivable is recognised when the goods are delivered as this is the point of time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sale of services

Associated with the supply of IoT hardware, the group supplies a range of data and reporting services, all installed on every SCS Connect and SCS Click sold and are distinct services from the sale of goods. Revenue from the provision of such services is recognised when services are rendered to the buyer. Contracts typically cover a period from hardware supply of anywhere from 1 to 10 years, dependent on customer requirements. Contracts specify the price for the provision of the services. Revenue from such contracts is recognised on a straight-line basis over the contract term

because the customer receives and uses the benefits simultaneously.

The group received revenue in previous years amounting to $US212,000 in connection with the development of a new motor product. This revenue was deferred as a contract liability. During 2019, the company reached agreement with its development "partner" that the amount received be regarded as a contribution to the company's capitalised development cost. Accordingly $331,000 has been reclassified to intangible assets as a reduction of the asset book amount.

Contract liabilities	2019 $000s	2018 $000s
Carrying amount at start of year	**2,972**	1,350
On acquisition of iProximity Pty Limited (note 6.1b)	**-**	18
Invoiced in the year	**2,723**	2,063
Recognised in revenue	**(939)**	(590)
Reclassified to intangible assets	**(331)**	-
Exchange adjustment	**(7)**	131
Carrying amount at end of year	**$4,418**	$2,972
Current portion	**1,044**	620
Non-current portion	**3,404**	2,352
	$4,418	$2,972

2.3 Other Income

	2019 $000s	2018 $000s
Net foreign exchange gains	**-**	144
Other income	**18**	7
	$18	$151

2.4 Operating expenses include

	2019 $000s	2018 $000s
Wages and salaries and other short-term benefits	**10,431**	8,986
Employee share options expense	**6**	12
Total employee benefits	**$10,437**	$8,998
Gain on remeasurement of contingent consideration	**($467)**	-
Capitalisation of labour and expenses to intangible assets	**($3,191)**	($1,622)

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The group recognises a liability and an expense for bonuses and creates a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.5 Income tax expense

Current and deferred income tax

The income tax expense or revenue for the year is the tax payable on the current period's taxable income (based on the national income tax rate for each jurisdiction) adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered, or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Goods and Services Tax (GST) and Value Added Tax (VAT)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST and VAT. All items in the Statement of Financial Position are stated net of GST and VAT, except for receivables and payables, which include GST and VAT invoiced.

(a) Income tax expense

The company and group have unrecognised tax losses available to carry forward and offset against current year taxable income. Taxation of $192,000 (2018: $261,000) is payable in respect of some overseas subsidiaries.

(b) Unrecognised tax losses

	2019 $000s	2018 $000s
Reported profit / (loss) for period before tax	**640**	(453)
Non-deductible / non-assessable items	**(234)**	99
Unrecognised timing differences	**2,758**	2,361
Net taxable income for tax purposes	**3,164**	2,007
Losses carried forward from prior years	**(101,593)**	(101,788)
Adjustment of prior periods	**48**	(1,353)
Overseas taxable income	**(364)**	(676)
Exchange adjustments	**(663)**	217
Losses available to carry forward to future years	**($99,408)**	($101,593)

Of the total consolidated losses available to carry forward to future years, $1,498,000 (2018 - $1,272,000) arises in the USA and is subject to their continuity requirements. USA Federal tax losses expire after 15 to 20 years, depending on when those losses were incurred. During the 2019 year no USA Federal tax losses expired (2018 - None).

(c) Unrecognised deferred tax balances

The group has not recognised income tax losses and temporary differences as a future income tax benefit due to the uncertainty of their recoverability in the immediate future. Losses available to be carried forward are subject to the shareholder continuity requirements of the New Zealand Income Tax Act 1994 and the countries in which the losses have arisen. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and they relate to the same tax authority. The New Zealand corporate tax rate of 28% has been used to determine the below unrecognised deferred tax assets:

	2019 $000s	2018 $000s
Doubtful debts	**39**	36
Inventory provisions and eliminations	**242**	121
Employee benefits	**332**	293
Internally generated development	**1,362**	880
Warranty provision	**131**	116
Rebates	**140**	-
Fixed assets	**(228)**	(290)
Right of use lease liability	**(378)**	(425)
Other timing differences	**(11)**	27
Tax losses to carry forward	**26,373**	28,450
Unrecognised net deferred tax asset	**$28,002**	$29,198

(d) Imputation credits

The group has no imputation credits available (2018 – $nil) and no movements occurred in the Imputation Credit Account (2018 – $nil).

2.6 Earnings per share

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.

Basic EPS of 0.17 cents (2018 – loss of 0.28 cents) is calculated by dividing the surplus attributable to equity holders of the company of $448,000 (2018 – loss of $713,000) by the weighted average number of ordinary shares in issue during the year of 266,455,298 (2018 – 257,235,719).

Diluted EPS of 0.16 cents (2018 - loss of 0.28 cents) is calculated by dividing the surplus attributable to equity holders of the company of $448,000 (2018: - loss of $713,000) by the weighted average number of shares in issue adjusted to reflect any commitments the group have to issue shares in future that would decrease EPS. The weighted average number of ordinary shares is compared with the number of shares that would have been issued assuming the exercise of share options and achievement of performance targets in connection with contingent consideration. At 31 December 2018, the following instruments existed that were, potentially dilutive of future earnings per share, but were not included in the calculation of diluted EPS for that year because the effect in that year would have been anti-dilutive:

Number of shares	2018
Part paid shares	12,460,638
US employee share options	1,818,385

3. Operating assets and liabilities

This section focuses on the assets used to generate the group's trading performance and the liabilities incurred as a result.

3.1 Working capital

Working capital represents the assets and liabilities the group generates through its trading activities. The group therefore defines working capital as cash, trade and other receivables, inventory, trade and other payables and provisions.

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	2019 $000s	2018 $000s
Cash on hand and at bank	**819**	372
Call deposits	**2,564**	485
Short term bank deposit	**76**	76
	$3,459	$933

The carrying amount of the group's cash and cash equivalents is denominated in the following currencies:

NZD	**2,026**	147
USD	**1,090**	614
Other	**343**	172
	$3,459	$933

(b) Trade and other receivables

Trade receivables are recognised initially at the value of the invoice sent to the customer. The group generally holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method. The carrying amounts of the trade receivables also includes a $941,000 (2018: $1,970,000) receivable which is subject to a factoring arrangement without recourse. Under this arrangement the group holds the trade receivable with the objective to collect and sell the contractual cash flows and therefore measures them subsequently at fair value through other comprehensive income. The receivables are de-recognised from the balance sheet when the cash is received through the factoring arrangement. Any fair value adjustments accumulated within other comprehensive income are recycled through the profit and loss account upon de-recognition of the receivable. As at the year end, no impact was recorded within other comprehensive income as a result of this arrangement. Trade receivables are generally due for settlement no more than 120 days from the date of recognition.

The group applies the simplified approach permitted by NZ IFRS 9 which requires expected lifetime credit losses to be recognised from initial recognition of the trade receivable. Trade receivables are written off when there is no reasonable expectation of recovery.

NZ IFRS 9 requires the group to calculate expected credit losses on trade receivables using a provision matrix. The group has reviewed its credit loss experience over the period from 2013 to 2019 and has determined that the credit loss experience over that period was 0.1% of revenue. Consideration has been given to market environmental factors to determine whether future conditions will impact. The provision for expected credit loss at balance date has been calculated at 0.1% (2018: 0.1%).

	2019 $000s	2018 $000s
Trade receivables	**13,848**	16,900
Provision for loss allowance	**(150)**	(130)
Net trade receivables	**13,698**	16,770
Prepayments	**544**	475
VAT/GST refunds due	**56**	617
Income tax refund due	**445**	35
Other receivables	**48**	81
	$14,791	$17,978

The carrying amount of the group's trade and other receivables is denominated in the following currencies:

NZD	**12**	317
USD	**14,070**	16,407
EUR	**117**	70
MXP	**392**	574
Other	**200**	610
	$14,791	$17,978

Provision for loss allowance

Carrying amount at start of year	**130**	107
Adjustment on adoption of NZ IFRS 9	**-**	10
Increase in loss allowance	**20**	7
Exchange adjustment	**-**	6
Carrying amount at end of year	**$150**	$130

The increase in provision is recognised within 'Operating expenses' in the Statement of Comprehensive Income.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory based on first in first out. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Management reviews inventory on a line by line basis. Judgments are made about expected selling prices and obsolescence based on forecast sales. A provision is recognised for inventory which is expected to sell for less than cost.

	2019 $000s	2018 $000s
Finished goods – at cost	**4,288**	3,449
Work in progress – at cost	**726**	1,244
Raw materials – at cost	**319**	342
Less inventory provisions	**(536)**	(145)
Total inventories	**$4,797**	$4,890

All inventories are subject to a security interest.

Cost of inventories recognised as an expense and included in cost of sales $42,934,000 (2018: $42,670,000).

(d) Trade and other payables

Trade payables are recognised at the value of the invoice received from a supplier. These amounts represent liabilities for goods and services provided to the group prior to balance date. The amounts are unsecured and are usually paid within 90 days of recognition.

	2019 $000s	2018 $000s
Trade payables	**13,402**	18,138
Employee entitlements	**1,556**	1,337
Accrued expenses	**880**	737
	$15,838	$20,212

The carrying amount of the group's trade and other payables is denominated in the following currencies:

NZD	**2,069**	1,849
USD	**13,382**	17,896
Other	**387**	467
	$15,838	$20,212

(e) Provisions

Provisions are recognised when the group has a present legal or constructive obligation because of past events, is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The group sells goods with warranty periods of up to five years. The terms of the warranty provide that the group will repair or replace items that fail to perform satisfactorily. A provision has been recognised based on historical data and average levels of repairs and warranty claims experienced by the group. It is expected that the provision will be utilised within one year as any product failures are typically exhibited within one year of sale.

Warranty provision	**2019 $000s**	2018 $000s
Carrying amount at start of year	**415**	377
Additional provisions recognised	**224**	137
Amounts used	**(170)**	(124)
Exchange adjustment	**(1)**	25
Carrying amount at end of year	**$468**	$415

3.2 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items and the costs of bringing the asset to the location and condition for it to be capable of operating in the manner intended.

Costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial year in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost net of their residual values, over their estimated useful lives, as follows:

	Useful Life
Plant and equipment	3 – 15 years
Property	12 years
Office equipment, furniture and fittings	3 – 15 years

The assets' residual values and useful lives are reviewed and adjusted as appropriate at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Plant and equipment can be analysed as follows:

	Plant & equipment $000s	Office equipment, furniture & fittings $000s	Properties $000s	Total $000s
Year ended 31 December 2018				
Opening net book amount	771	177	-	948
Adjustment on adoption of NZ IFRS 16 (note 6.5)	24	8	1,429	1,461
Additions	746	90	-	836
Depreciation	(250)	(107)	(179)	(536)
Exchange adjustment	52	52	41	145
Closing net book amount	$1,343	$220	$1,291	$2,854
At 31 December 2018				
Cost	6,216	1,928	2,078	10,222
Accumulated depreciation and impairment	(4,879)	(1,643)	(828)	(7,350)
Exchange adjustment	6	(65)	41	(18)
Net book amount	$1,343	$220	$1,291	$2,854
Year ended 31 December 2019				
Opening net book amount	**1,343**	**220**	**1,291**	**2,854**
Reclassification	**-**	**(37)**	**37**	**-**
Additions	**290**	**121**	**-**	**411**
Depreciation	**(273)**	**(125)**	**(187)**	**(585)**
Disposals	**(10)**	**(3)**	**-**	**(13)**
Exchange adjustment	**(15)**	**6**	**-**	**(9)**
Closing net book amount	**$1,335**	**$182**	**$1,141**	**$2,658**
At 31 December 2019				
Cost	**6,481**	**1,972**	**2,115**	**10,568**
Accumulated depreciation and impairment	**(5,137)**	**(1,731)**	**(1,015)**	**(7,883)**
Exchange adjustment	**(9)**	**(59)**	**41**	**(27)**
Net book amount	**$1,335**	**$182**	**$1,141**	**$2,658**

Refer to note 6.5 for further consideration for right-of-use assets.

Capital commitments

Capital commitments contracted for at 31 December 2019 amounted to $127,000 (2018 - $361,000).

3.3 Intangible assets

Research, development and patent costs

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the Statement of Comprehensive Income as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design to produce new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. This involves the use of judgement. Development costs are capitalised once it can be demonstrated that the asset is supported by future economic benefits. Management considers the following criteria when making its judgment as to when it is appropriate to commence capitalisation of development costs:

- technical feasibility of completing the development so that it will be available for use or sale;
- intention to complete the development;
- ability to use the developed asset or sell it;
- existence of a market;
- availability of adequate technical, financial and other resources to complete and commercialise the development; and
- ability to measure reliably the expenditure attributable to the development.

All capitalised development costs met the criteria as outlined above.

The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Development expenditure which does not meet the criteria for capitalisation is recognised in the Statement of Comprehensive Income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit, up to a maximum of 10 years for motors and up to a maximum of 5 years for SCS Controllers. Judgment is involved in determining this period of benefit. For motors, the group considered the earlier versions of motors and the length of time from completion to continued sales contribution; whereas for SCS controllers, the group considered that 5 years is an appropriate life given the inherent risk of rapid technological change.

Patents

Capitalised patent costs are amortised on a straight-line basis over the period of expected benefit no longer than the life of the patent, up to a maximum of 20 years.

Computer software

Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Impairment testing of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing

impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Goodwill is tested annually for impairment, or immediately if events or changes in circumstances indicate that it might be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

	Internally Generated Development $000s	Patents $000s	Goodwill $000s	Other $000s	Total $000s
Year ended 31 December 2018					
Opening net book amount	6,392	386	-	153	6,931
Additions	2,149	73	3,223	4	5,449
Amortisation and impairment	(1,368)	(98)	-	(9)	(1,475)
Exchange adjustment	362	22	-	8	392
Closing net book amount	$7,535	$383	$3,223	$156	$11,297
At 31 December 2018					
Cost	14,703	1,479	3,223	681	20,086
Accumulated amortisation	(7,650)	(1,122)	-	(509)	(9,281)
Exchange adjustment	482	26	-	(16)	492
Net book amount	$7,535	$383	$3,223	$156	$11,297
Year ended 31 December 2019					
Opening net book amount	**7,535**	**383**	**896**	**156**	**8,970**
Restatement for acquisition accounting	**-**	**-**	**2,327**	**-**	**2,327**
Opening net book amount - restated	**7,535**	**383**	**3,223**	**156**	**11,297**
Reclassification from contract liability	**(331)**	**-**	**-**	**-**	**(331)**
Additions	**3,246**	**47**	**-**	**54**	**3,347**
Amortisation and impairment	**(1,877)**	**(123)**	**-**	**(123)**	**(2,123)**
Exchange adjustment	**(45)**	**2**	**-**	**-**	**(43)**
Closing net book amount	**$8,528**	**$309**	**$3,223**	**$87**	**$12,147**
At 31 December 2019					
Cost	**17,618**	**1,526**	**3,223**	**735**	**23,102**
Accumulated amortisation	**(9,527)**	**(1,245)**	**-**	**(632)**	**(11,404)**
Exchange adjustment	**437**	**28**	**-**	**(16)**	**449**
Net book amount	**$8,528**	**$309**	**$3,223**	**$87**	**$12,147**

Goodwill relates to the iProximity Pty Limited acquisition (note 6.1(b)). Comparatives for 2018 have been restated to reflect finalisation of the accounting for the acquisition.

Internally generated development costs includes $3,153,000 (2018: $2,329,000) for projects underway and not complete at balance date. This cost is not yet being amortised. An impairment assessment has been performed at 31 December 2019 considering costs to complete the developments, costs to set up the manufacturing capability, estimates of market volume and price and estimated manufacturing unit costs.

Amortisation and impairment	2019 $000s	2018 $000s
Amortisation of intangible assets	**1,800**	1,475
Impairment of intangible assets	**323**	-
	$2,123	$1,475

Impairment losses have been recognised as follows:

- Patent costs - $33,000. The carrying values of patents for products discontinued in the period.
- Internally generated development costs - $290,000. The company incurred costs for the development of a new motor product. The development has been completed by a third party and it has been agreed with that party that in return for the company giving up its rights to future margin share, the company would be reimbursed in full for the development costs it has incurred. The company has received no sales forecasts and is unable to determine therefore when the company can expect to receive its margin share. Accordingly, the carrying value of the development asset, net of the third party's contribution to the development cost, has been written off in full.

Goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations with indefinite lives has been allocated to the IoT Cash Generating Unit (CGU) which is also an operating and reportable segment for impairment testing. The group performed its impairment test at 31 December 2019.

The recoverable amount of the IoT CGU at 31 December 2019 has been determined based on a value in use calculation using cash flow projections from the annual operating plan approved by senior management for 2020 together with forecasts for 2021. The pre-tax discount rate applied to cash flow projections is 14% and cash flows beyond 2021 using a 5.0% growth rate. This rate is significantly below the company's 28.5% revenue growth in 2019. The calculation of value in use is most sensitive to the following assumptions:

- Gross margins.
- Completion and launch of new IoT products under development and retaining volumes to current customers.
- Growth rates used to extrapolate cash flows beyond the forecast period.
- Operating expense increases.

Gross margins are based on current pricing and product costs. The gross margin in 2019 was 40.8% and is forecast in the range of 42.4% to 43.6% for the four years. The forecasts include revenues on products currently under development that are expected to launch in 2020 and 2021. The amount of revenue in respect of these new products in 2020 is US$0.8m and US$3.1m. The forecast assumes that volumes to current customers are maintained. The assumption is that operating expenses comprising mainly employee costs are maintained at the same ratio to sales. In 2019, the ratio of operating expenses to revenue was 14.8%.

As a result of this analysis, management did not identify an impairment for this CGU.

4. Capital and financing costs

This section sets out the group's capital structure and shows how it finances its operations and growth.

To finance the group's activities (now and in the future) the Board monitors and determines the appropriate capital structure for Wellington to execute strategy and to deliver its business plan.

4.1 Borrowings

	2019 $000s	2018 $000s
Current portion		
Bank trade finance facility	**1,420**	-
Loan facility – Smartshares Limited	**-**	500
Loan facility – Meta Capital Limited	**-**	894
Loan facility – Onimeg Investments Limited	**-**	2,500
Liabilities in respect of right-of-use assets	**198**	187
Other liabilities	**79**	67
Liability at end of year	**$1,697**	$4,148
Non-Current portion		
Liabilities in respect of right-of-use assets	**1,180**	1,345
Other borrowings	**184**	149
Liability at end of year	**$1,364**	$1,494

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after balance date. Borrowing costs are expensed when incurred.

Bank trade finance facility

In December 2018 the company was offered and accepted a $1.5m trade finance facility. The bank holds a security interest over financed trade receivables. The facility was increased to $2.0m in May 2019. The facility has no term and is repayable on demand. The company can finance invoices to certain customers over a maximum 120 days term. Interest is payable at a 3% margin above bank base lending rate.

Loan facility – Smartshares Limited

The company owed $500,000 at 31 December 2018 under a $2 million unsecured loan facility from Smartshares Limited, a shareholder. This was repaid in March 2019. Interest was payable quarterly at 15.75% pa and $20,000 annual revolver fee was payable.

Loan facility – Meta Capital Limited

The loan outstanding at 31 December 2018 was US$ 600,000. This was repaid in December 2019. Interest was payable at 12.5%.

Loan facility – Onimeg Investments Limited

The loan outstanding at 31 December 2018 was $2,500,000. $1,500,000 was repaid in September 2019 and $1,000,000 was repaid in December 2019. Interest was payable at 16% pa on a quarterly basis in arrears.

Other borrowings

Comprises lease liabilities in respect of finance leases.

4.2 Finance

	2019 $000s	2018 $000s
Finance income		
Other interest income	**19**	7
	$19	$7
Finance expenses		
Interest expense – Bank trade finance facility	**85**	-
Interest expense – Smartshares Limited	**30**	248
Interest expense – Meta Capital Limited	**128**	108
Interest expense – Onimeg Investments Limited	**284**	119
Other interest expense	**363**	437
	$890	$912

4.3 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	2019 Shares	2018 Shares	2019 $000s	2018 $000s
Ordinary shares – fully paid	**322,707,005**	257,436,000	**130,202**	123,590
Ordinary shares – partly paid	**5,810,742**	12,460,638	**26**	37
US employee share options	**1,058,372**	1,818,385	**-**	-
Total shares and options on issue	**329,576,119**	271,715,023	**$130,228**	$123,627

(a) Ordinary shares – fully paid

Opening balance of ordinary shares on issue	**257,436,000**	257,097,352	**123,590**	123,571
Issue of ordinary shares during the year:				
• Rights issue	**53,232,829**	-	**5,323**	-
• Issue pursuant to iProximity acquisition	**4,724,482**	-	**844**	-
• Exercise of part paid shares	**7,313,694**	338,648	**597**	19
• Share issue costs	**-**	-	**(152)**	-
Ordinary fully paid shares on issue at year end	**322,707,005**	257,436,000	**$130,202**	$123,590

All ordinary shares are authorised and have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on shares held.

(b) Ordinary shares – partly paid

Partly paid shares outstanding at start of year	**12,460,638**	12,703,070	**37**	37
Issue of partly paid shares during the year:	**(6,553,681)**	(242,432)	**(11)**	-
Surrendered or lapsed	**(96,215)**	-	**-**	-
Ordinary part paid shares on issue at year end	**5,810,742**	12,460,638	**$26**	$37

For further details of part paid shares see 6.2c.

4.3 Contributed equity

(c) US employees share options (numbers)

	2019 Share Options	2018 Share Options
Options outstanding at start of year	**1,818,385**	1,914,601
Issue of U.S. employee options during the year:	**(760,013)**	(96,216)
Outstanding at end of year	**1,058,372**	1,818,385

4.4 Accumulated losses

	2019 $000s	2018 $000s
Opening balance	**(115,186)**	(114,106)
Adjustment on adoption of NZ IFRS 9, NZ IFRS 15 and NZ IFRS 16 (net of tax)	**-**	(367)
Profit / (loss) for the year	**448**	(713)
Accumulated losses at end of year	**($114,738)**	($115,186)

4.5 Other reserves

	2019 $000s	2018 $000s
Share option compensation reserve	**322**	316
Currency translation reserve	**(2,705)**	(2,383)
	($2,383)	($2,067)

(a) Share Option Compensation Reserve

	2019 $000s	2018 $000s
Share based compensation recognised at start of year	**316**	304
Net compensation expensed	**6**	12
	$322	$316

(b) Currency Translation Reserve

	2019 $000s	2018 $000s
Opening balance	**(2,383)**	(2,689)
Exchange gains / (losses) on translation of foreign operations	**(322)**	306
	($2,705)	($2,383)

5. Risk

This section presents information about the group's exposure to financial and commercial risks; the group's objectives, policies and processes for managing those risks.

5.1 Key financial risks

The group's principal financial instruments comprise receivables, payables, cash and cash equivalents, borrowings, derivatives and contingent consideration.

The group manages its exposure to the key financial risks – market risk (including foreign currency risk and interest rate risk), credit risk, liquidity risk and capital risk. The group enters into derivative transactions (principally forward currency contracts) to manage currency risks.

(a) Financial market risk

Foreign currency risk

The group operates internationally and is exposed to foreign currency risk arising from various currency exposures. Presently the group's revenue is based on USD pricing and invoicing is almost entirely USD denominated. The company's functional currency is USD. The majority of the group's product, manufacturing and logistics cost is invoiced and settled in USD. This provides a strong natural hedge position between revenues and costs. USD funds are converted to NZD to meet New Zealand operational costs as required.

The group is primarily exposed to changes in other currencies against the USD exchange rate. The group's exposure to foreign currency risk at the end of the reporting period, expressed in NZD was:

	2019		2018	
	Carrying amount $000s	**Currencies other than US$ $000s**	Carrying amount $000s	Currencies other than US$ $000s
Cash	**3,459**	**2,369**	933	319
Trade and other receivables	**14,791**	**1,006**	17,978	1,501
Trade and other payables	**(15,838)**	**(2,456)**	(20,212)	(2,316)
Borrowings	**(3,061)**	**(1,641)**	(5,642)	(4,748)

The sensitivity of profit or loss to changes in the exchange rates arises mainly from changes in other currencies against the USD exchange rate. The impact on post tax profit holding all other variables constant at 10% sensitivity movement is as follows:

	2019 $000s	2018 $000s
US$ exchange rate increase 10% relative to other currencies	**52**	378
US$ exchange rate decrease 10% relative to other currencies	**(52)**	(378)

The impact on other components of equity is not material because of minimal foreign forward exchange contracts designated as cash flow hedges.

The impact of a change in NZD exchange rates on the reported NZD result (excluding any gains / losses arising on financial assets and liabilities summarised above) is demonstrated in the table below.

	Reported in NZ$ $000s	If NZ$ / US$ rate had been 0.60 $000s	If NZ$ / US$ rate had been 0.80 $000s
Revenue	**61,719**	**68,235**	**51,891**
Gross profit	**16,634**	**18,390**	**13,985**
Operating income	**18**	**18**	**18**
Operating expenses	**(12,433)**	**(12,409)**	**(11,250)**
EBITDA	**4,219**	**5,999**	**2,753**
Depreciation & amortisation	**(2,708)**	**(2,708)**	**(2,708)**
EBIT	**1,511**	**3,291**	**45**
Interest (net)	**(871)**	**(871)**	**(871)**
Profit	**$640**	**$2,420**	**($826)**

Interest Rate Risk

The interest rate on the bank trade finance facility is at variable rates. All other debt is fixed interest.

The group has cash deposits in various currencies to facilitate trading in the countries in which it has a presence. Most of the cash deposits are held in either NZD or USD.

The impact of a 1% increase / decrease in interest rates over a one-year period on the closing cash balance is not significant.

(b) Credit risk

The group generally trades with customers and banking counterparties who are well established. While there are individually significant customers, the group takes out trade credit insurance to provide better security. Receivables balances are managed by and reported regularly to senior management according to credit management policies and procedures. The amount outstanding at balance date represents the maximum exposure to credit risk.

At balance sheet date, trade receivables of $1,285,000 were past due but not considered impaired (2018 - $565,000). Of this amount $587,000 (2018 - $120,000) was 3 months or more overdue.

The group enters into forward foreign exchange contracts within specified policy limits and only with counterparties approved by directors.

Cash and cash equivalents are deposited with several financial institutions in New Zealand and overseas. $2,031,000 is deposited with a major NZ trading bank with a Standard and Poors rating of AA- (2018: $371,000 AA-) and $486,000 (2018: $176,000) with Western Union. The remaining balance of $942,000 (2018: $386,000) is held across several territories and non-performance of obligations by the relevant banks is not expected due to the credit rating of the counter parties considered.

(c) Liquidity risk

The group maintains regular forecasts of liquidity based on expected cash flows. The table below analyses the group's financial liabilities into relevant groups based on the remaining period at the reporting date to the end of the contractual date.

The amounts disclosed are the contractual undiscounted cash flows.

	2019			2018		
$000's	**Less than 6 months**	**7 to 12 months**	**More than 12 months**	Less than 6 months	7 to 12 months	More than 12 months
Trade and other payables	**15,729**	**-**	**-**	20,108	-	-
Borrowings	**1,420**	**-**	**-**	1,394	2,500	-
Lease liabilities	**143**	**134**	**1,364**	131	123	1,494
	$17,292	**$134**	**$1,364**	$21,633	$2,623	$1,494

Trade and other payables above exclude any liabilities for tax (including payroll taxes), statutory liabilities and contract liabilities.

(d) Capital risk management

The company closely monitors its cash requirements.

During the year the company borrowed against the bank trade finance facility and used the proceeds, in part, to repay the remaining amount due to Smartshares Limited. During the year the company raised $5.2 million from a 1:5 renounceable rights issue and $1.4 million from the issue of shares to employees pursuant to employee share schemes. The proceeds of these issues were also applied, in part, to the repayment of outstanding loans.

The group has complied with financial covenants under the bank trade finance facility.

6. Other information

This section includes other information that must be disclosed to comply with accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

6.1 Subsidiaries

(a) The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1.2b.

	Country of incorporation	Class of Shares	**2019**	2018
Wellington Drive Sales Ltd	New Zealand	Ordinary	**100%**	100%
Wellington Drive Technologies US, Inc	USA	Ordinary	**100%**	100%
Wellington Motor Teknolojileri San Tic Ltd Sti	Turkey	Ordinary	**100%**	100%
Wellington Italia Srl	Italy	Ordinary	**100%**	100%
Wellington Drive Technologies Pte Ltd	Singapore	Ordinary	**100%**	100%
Wellington Refrigeration Singapore Pte Ltd	Singapore	Ordinary	**100%**	100%
Wellington Latin America Services SA de CV	Mexico	Ordinary	**100%**	100%
Wellington Mexico Tecnologia SA de CV	Mexico	Ordinary	**100%**	100%
iProximity Pty Limited	Australia	Ordinary	**100%**	100%

All subsidiaries have a common balance date of 31 December.

(b) Summary of acquisition

On 2 July 2018 the company acquired 100% of the issued share capital of iProximity Pty Limited, an Australian based innovative proximity marketing solutions and consumer intelligence company. The consideration for the acquisition comprises up-front payments of AU$1,250,000 and cash and share-based earn out targets as follows:

- A$500,000 based on meeting specified EBIT targets (for iProximity's existing business) for the 2018 and 2019 financial years;
- The issue of fully paid ordinary shares in the company in tranches based on meeting specified EBIT targets for the period ending 31 December 2020 (9,448,964 shares) and based on Wellington's SCS Connect System controller unit sales for the same period (9,448,964 shares).

The purchase consideration was:

	$000s
Cash paid	**1,367**
Contingent consideration	**2,327**
Total purchase consideration	**$3,694**

As detailed above, additional consideration may be payable in cash on 31 March 2020. The maximum potential undiscounted amount payable is A$500,000. In addition, up to 18,897,928 ordinary shares in Wellington may be issued.

The acquisition date fair value of the contingent consideration arrangement of $2,327,000 was estimated by considering the likelihood that the cash and share based targets would be achieved. The cash-based targets were considered unlikely to be achieved and the fair value of the contingent cash consideration was estimated to be nil. The likelihood of achieving the share-based targets was assessed and the probability adjusted number of ordinary shares to be issued was calculated. The fair value of the share-based contingent consideration was determined by multiplying

the estimated number of shares (13,949,034 shares) by $0.15 being the price of the company's shares on NZX at the acquisition date.

Acquisition related costs of $16,000 were included in operating expenses in the Consolidated Statement of Comprehensive Income and in operating cash flows in the Consolidated Cash Flow Statement for the year ended 31 December 2018. There were no further costs incurred in 2019.

The fair values of the assets and liabilities at the date of acquisition were as follows:

	$000s
Intangible assets - platform	**536**
Trade and other receivables	**18**
Trade and other payables	**(65)**
Contract liabilities	**(18)**
Net identifiable assets acquired	**471**
Goodwill	**3,223**
Net assets acquired	**$3,694**

Comparative figures for 2018 have been restated. Amounts for goodwill and contingent consideration were increased by $2,327,000. There was no change in fair value required to be recognised in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2018. The probability adjusted number of shares at 31 December 2018 was calculated to be 12,842,717 shares. The comparative balances in the Interim Financial Statements at 30 June 2019 will also need to be restated.

The goodwill is attributable to the synergies that arise from the company being able to include iProximity's marketing solutions as part of the group's IoT product offering. The company expects to be able to sell more of its IoT solutions (including SCS Connect hardware) as a result of the wider services offering.

As at 31 December 2019, there was a decrease on contingent consideration of $467,000 which resulted in a fair value gain being recognised in operating expenses for the contingent consideration arrangement, to reflect an updated view on the likelihood of share-based targets being achieved offset by an increase in the company's share price to $0.172 at 31 December 2019 (increasing the value of any shares to be issued). The probability adjusted number of shares was calculated to be 10,630,085 shares.

Contingent consideration	**2019 $000s**	Restated 2018 $000s
Fair value at start of year	**2,327**	-
Fair value at date of acquisition	**-**	2,327
Part settlement during the year	**(844)**	-
Remeasurement recognised in income statement	**(467)**	-
Total	**$1,016**	$2,327

The acquired business contributed revenues of $92,000 and a loss of $446,000 for the 2019 year ($37,000 revenue and a loss of $187,000 to the group from 2 July 2018 to 31 December 2018). In addition, the proximity marketing solutions offered by the business are integrated into Wellington's IoT product offering and are assisting the group to generate IoT revenue outside of the acquired business. It is not practical to determine the impact on revenue and profitability of the group if the business had been acquired on 1 January 2018 because different accounting policies were adopted by the acquired business and salaries for employees were not market related.

6.2 Related party transactions

(a) Directors

The names of persons who are directors of the company are on page 13.

(b) Key management personnel and compensation

Key management personnel compensation is set out below. Key management personnel comprise the Directors including the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO.

	2019 $000s	2018 $000s
Salaries, fees and other short-term benefits	**1,934**	1,873
Share based remuneration	**2**	6
Directors' remuneration	**226**	141
Total	**$2,162**	$2,020

(c) Employee share based remuneration

Equity settled, share based compensation is provided to employees via the Wellington Partly Paid Share Scheme and the US Employees Share Option Plan. The fair value of the employee services received in exchange for the grant of part paid shares or options are recognised as an expense over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when the partly paid share proceeds are received, or options are exercised.

Ordinary shares – partly paid

Issue date	Earliest date to exercise	Expiry exercise date	Share hurdle price (cents)	Partly paid share price (cents)	Balance payable on exercise (cents)	**Outstanding at 2019** (numbers)	Outstanding at 2018 (numbers)
24 Jun 2013	24 Jun 2017	30 Apr 2020	16.29	16.29	15.79	**1,443,235**	1,635,665
18 Jun 2014	18 Jun 2017	28 Feb 2020	14.22	14.22	13.72	**1,260,587**	1,260,587
23 Jul 2014	23 Jul 2017	30 Apr 2020	14.73	14.73	14.23	**1,744,000**	1,890,216
1 Jul 2015	1 Jul 2017	1 Jul 2019	5.21	5.21	5.11	**-**	2,316,840
1 Jul 2015	1 Jul 2018	1 Jul 2020	5.65	5.65	5.53	**940,940**	1,647,784
20 Apr 2016	31 Mar 2017	31 Mar 2019	9.43	9.43	9.23	**-**	3,287,566
30 Sep 2016	30 Sep 2019	30 Sep 2021	18.17	18.17	17.81	**421,980**	421,980
						5,810,742	12,460,638

A Partly Paid Share Scheme was established in June 2008, to enable certain employees to acquire shares in the company. After the earliest date to exercise, provided the market price for the company's shares is, at that date, equal to or greater than the hurdle price stated above (and on or before 2 years after the earliest exercise date), employees can settle the unpaid balance of their part-paid shares and transfer the shares to their name or the name of their nominated trustee.

The April 2016 issue of part paid shares is subject to the company achieving specific financial performance targets in the 2016 financial year or at the discretion of the directors pursuant to the rules of the Scheme.

Wellington Drive Technologies Share Scheme Trustee Limited (WSST) acts as trustee holding the part-paid shares on behalf of employees. These partly paid shares are not quoted on the NZX and are not tradable.

Mr Greg Allen, the company's Chief Executive, was issued 1,260,587 partly paid shares in June 2014, 2,316,840 shares in 2015 and a further 1,218,073 in April 2016 subject to terms outlined above.

Fair value is assessed at the date that the partly paid shares or share options are granted using a binomial option pricing model that takes into account the exercise price, the three year term of the partly paid shares or options, the exercise criteria, the likelihood of staff turnover, the non-tradable nature of the partly paid share or option, the share price at the issue or grant date, the volatility of the returns on the underlying share and the risk-free interest rate for the term of the partly paid share or option.

U.S. employee share options

In June 2010 the Company established the United States Employees Share Option Plan under which the Company can issue up to 3,000,000 options. The price at which options can be exercised under the United States Share Option Plan is the closing sales price on the date of the grant plus a 30% premium. Further details of share options granted are summarised below:

Grant date	Expiry date	Exercise price (cents)	**Outstanding at 2019** (numbers)	Outstanding at 2018 (numbers)
24 Jun 2013	30 Apr 2020	16.9	**288,647**	288,647
23 Jul 2014	30 Apr 2020	14.3	**288,647**	288,647
21 Aug 2014	30 Apr 2020	12.2	**96,216**	96,216
1 Jul 2015	30 Apr 2020	5.59	**288,647**	288,647
20 Apr 2016	31 Mar 2019	11.7	**-**	760,013
30 Sep 2016	30 Sep 2020	18.2	**96,215**	96,215
			1,058,372	1,818,385

(d) Meta Capital Limited loan

Meta Capital Limited is a company associated with a director, Mr J McMahon (see note 4.1).

(e) Smartshares Limited loan

Smartshares Limited is a substantial security holder (see note 4.1). Mr J McMahon is a director of NZX Limited which wholly owns Smartshares Limited.

(f) East West Manufacturing LLC

East West Manufacturing LLC (East West), a substantial security holder in the company, supplies goods and services to the company from its manufacturing facility in Vietnam and purchases product for distribution in the USA. All pricing is on an arms-length basis.

	2019 $000s	2018 $000s
Purchases from East West	**36,990**	34,272
Sales to East West	**1,580**	646
Cash payments to East West	**38,518**	27,244
Cash receipts from East West	**1,169**	638
Trade receivable from East West at 31 December (secured)	**466**	54
Trade payable to East West at 31 December	**10,636**	12,164

The company had developed a new motor product pursuant to an agreement with East West. The company is to receive a share of the sales margin from sales of the product in the USA. The agreement was varied during the year so that East West now retain this margin until additional development costs they incurred are recouped. This variation was negotiated in the best interests of the company.

(g) Loan to employee by Mr J McMahon

In April 2019, Mr J McMahon, a director of the company, in his private capacity, provided a $14,516.05 interest-free bridging loan to an employee to enable the employee to exercise his entitlement under the US Employees Option Plan.

6.3 Contingencies

There are no material contingent liabilities or assets (2018 - $nil).

6.4 Financial instruments by category

	2019 $000s	2018 $000s
Assets per Statements of Financial Position		
Loans and Receivables		
Trade and other receivables	**13,746**	16,851
Cash and cash equivalents	**3,459**	933
Derivatives used for hedging at fair value through Statement of Comprehensive income		
Derivative financial instruments	**56**	-
	$17,261	$17,784
Liabilities per Statements of Financial Position at amortised cost		
Trade and other payables	**15,838**	20,212
Borrowings	**3,061**	5,642
Liabilities per Statement of Financial Position at fair value through Statement of Comprehensive Income		
Contingent consideration	**1,016**	2,327
Derivative financial instruments	**-**	10
	$19,915	$28,191

Fair value estimation

The only financial instruments carried at fair value are derivatives comprising forward foreign exchange contracts and contingent consideration.

The forward exchange contract has been classified as Level 2.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- 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) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (Level 3)

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value. The fair value of contingent consideration in respect of the acquisition of iProximity Pty Limited is determined using the estimated number of shares that are to be issued to the vendors pursuant to the purchase agreement and the company's share price at balance date. The probability adjusted number of shares and the company share price at the acquisition date, 31 December 2018 and 31 December 2019 are set out in note 6.1b.

6.5 Leases

The Statement of Financial Position shows the following amounts related to leases of right-of-use assets:

Right-of-use assets	2019 $000s	2018 $000s
Properties	**1,141**	1,291
Plant & equipment	**23**	45
Office equipment and furniture & fittings	**12**	5
Total	**$1,176**	$1,341

Additions to right-of-use assets in the year	2019 $000s	2018 $000s
Properties	**-**	1,429
Plant & equipment	**25**	24
Office equipment and furniture & fittings	**13**	8
Total	**$38**	$1,461

The Consolidated Statement of Comprehensive Income shows the following amounts related to right-of-use leases:

Depreciation charge for right-of-use assets	2019 $000s	2018 $000s
Properties	**182**	179
Plant & equipment	**7**	15
Office equipment and furniture & fittings	**1**	3
Total	**$190**	$197
Interest expense on lease liabilities	**$95**	$106
Expense relating to short-term leases (included in operating expenses)	**$51**	$51

The Consolidated Cash Flow Statement shows the following amounts related to right-of-use leases:

Total principal payments for right-of-use assets	**$189**	$178
Lease repayments for leases previously classified as finance leases under NZ IAS 17	**$93**	$69

The group's leasing activities and how these are accounted for:

The group leases property, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms for equipment and cars tend to be industry standard. Other leases are negotiated on an individual basis.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to Statement of Comprehensive Income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments based on an index or rate

- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments or penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Statement of Comprehensive Income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets of a value of US$5,000 or less.

Lease renewal options are included in the property lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise the renewal option. Renewal options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

6.6 Other disclosures

Auditors remuneration	**2019 $000s**	2018 $000s
Deloitte appointed from October 2019		
- Audit of financial statements of the group	**119**	-
- Non audit services*1	**31**	-
PricewaterhouseCoopers resigned October 2019		
- Audit of financial statements of the group	**46**	155
- Procedures over interim financial statements of the group	**6**	7
Audit of subsidiaries by other auditors – Thong & Lim	**1**	7
	$203	$169

*1 Non audit services relate to tax compliance and payroll services.

6.7 Cash flow information

(a) Reconciliation of profit / (loss) for the year to net cash inflow from operating activities

	2019 $000s	2018 $000s
Profit / (loss) for the year	**448**	(713)
Adjustments for:		
Depreciation, amortisation & impairment	**2,708**	2,011
Share based payments	**6**	12
Inventory provision movement	**391**	83
Loss allowance provision movement	**20**	13
Provision for warranty movement	**53**	38
Change in fair value of contingent consideration	**(467)**	-
Net foreign exchange differences	**(113)**	(402)
Increase / (decrease) in trade and other receivables	**3,167**	(6,293)
Increase in contract liabilities	**1,446**	1,604
Increase in inventories	**(298)**	(1,948)
(Decrease) / increase in trade and other payables	**(4,374)**	7,444
Net cash inflow from operating activities	**$2,987**	$1,849

(b) Net cash / (debt) reconciliation

	2019 $000s	2018 $000s
Cash and cash equivalents	**3,459**	933
Borrowings – repayable within one year	**(1,697)**	(4,148)
Borrowings – repayable after one year	**(1,364)**	(1,494)
Net debt	**$398**	($4,709)

The bank trade finance facility is at variable interest rates. All other borrowings are at fixed interest rates, with borrowings movements disclosed in note 4.1. The increase in cash during the year of $2,527,000 (2018: $630,000 decrease) included an $151,000 increase (2018: $96,000 increase) caused by exchange rate movements.

6.8 Events after reporting date

Dr Lisbeth Jacobs has previously announced her intention to retire as a director and this will be effective 28 February 2020.

On 13 February 2020, the company provided an announcement via NZX of the potential impact from the 2019 Novel Coranavirus (nCov) on its supply chain operations. The risk remains. The company's supply chain is global in nature and components that suppliers need for production are sourced globally, and from across Asia, including China, which is the predominant or sole source of certain componentry. As a result of the nCov emergency and measures put in place in China by local and central government, the company is expecting an impact on product supply.

There are some indications from authorities that factory production in China will restart towards the end of February and into March. Initial forecast scenarios assume the company is only able to supply product from existing inventory until such time as the China component supply chain situation is resolved. The company is currently assuming resumption of normal production and shipping around the end of April 2020. Initial forecasts indicate a potential risk to revenue of approximately US$3.6m from February to April 2020. The company does not expect that all this delayed supply will be perishable, so some catch up later in Q2 2020 currently appears likely. If necessary, the company can defer planned incremental expansion spending, which would somewhat mitigate the flow through impact on the forecast 2020 profit.

Deloitte.

Independent Auditor's Report

To the Shareholders of Wellington Drive Technologies Limited

Opinion

We have audited the consolidated financial statements of Wellington Drive Technologies Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, statement of movements in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 18 to 51, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

Other than in our capacity as auditor and the provision of payroll preparation services as described in the *Other matter – independence section* of our report and taxation compliance, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Audit materiality

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

We determined materiality for the Group financial statements as a whole to be $610,000.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Evaluation of cash flow forecasts supporting the use of the going concern assumption The financial statements have been prepared on a going concern basis as discussed in note 1.2(a). Historically, the Group has been incurring losses. The accumulated losses shown in the Consolidated Statement of Financial Position totalled $114.7 million as at 31 December 2019 (2018: $115.2 million). Cash shortages encountered throughout the growth phase have been mitigated by capital raises and draw downs on borrowings. In determining that the use of the going concern assumption is appropriate, the Board of Directors prepared cash flow forecasts to assess the Group's ability to generate sufficient cash flows to pay its debts as they fall due for a period of at least 12 months from the date of approval of these financial statements. Cash flow forecasts were prepared using key inputs and assumptions including: - revenue and gross margin growth over the forecast period; - operating, financing and capital expenditure over the forecast period; and - the impact of macroenonomic factors on the group's supply chain, specifically the coronavirus. The cash flow forecasts used in the going concern assessment are considered to be a key audit matter due to the high level of judgement and estimation uncertainty, extent of auditor attention and the importance to the financial statements as a whole.	In assessing the appropriateness of the cash flow forecasts used in the going concern assessment, our procedures included, amongst others: • Obtaining an understanding of the Group's strategy, business plan and the controls and processes in place for preparing and approving the cash flow forecast to support the going concern assumption. • Assessing the Group cashflow forecast prepared for a period of at least 12 months from the date of approval of the financial statements. This involved obtaining an understanding of the inputs to the model and challenging key judgements and assumptions, as follows: - Assess the reasonableness of forecast sales based on our understanding of historical sales trends - Assessing the operating, financing and capital cash flow requirements of the Group over the forecast period - Peforming sensitivity analysis over key assumptions in the model such as forecast revenue and gross margin and - Performing a retrospective analysis between the current year's budgeted results and the actual results to assess the forecasting accuracy of the Group. • Checking the mechanical accuracy of the cash flow forecast • Reviewing the bank facility terms; including the Group's ability to meet repayment terms and comply with covenant restrictions.
Capitalisation of internal development costs The Group capitalised $3.2 million of internal development costs (2018: $2.1 million), as set out in note 3.3 'Intangible assets'. This includes capitalised employee and contractor time. Judgement is required to determine if the recognition criteria to captialise costs of development under NZ IAS 38 *Intangible Assets* have been met. Key areas of judgement include assessments of technical feasibility, likelihood of generating future economic benefits and the availability of funding necessary for completing the products. We have included capitalisation of internal development costs as a key audit matter due to the level of judgement required to determine whether the costs meet the criteria for capitalisation, the manual nature of the calculation and the growing importance of development of IoT and new motor products.	We have evaluated the appropriateness of internal development costs capitalised by: • Challenging the Group's determination of which development costs meet the criteria to be capitalised under NZ IAS 38. We obtained an understanding of the nature of the projects from management, including how they are used in the business, the stage of development, and the likelihood of the development being successfully completed and used to generate revenue • Checking capitalisation of cost calculations for mathematical accuracy • Testing the amounts capitalised on a sample basis and agreeing this to underlying evidence, including, for employee and contractor costs allocated to development projects, testing a sample of hours worked on each project and the relevant wage rates.

Key audit matter	How our audit addressed the key audit matter
Measurement of iProximity contingent consideration On 2 July 2018 the group acquired iProximity Pty Limited, paying $1.3 million of cash to acquire net assets of $0.4 million and resulting goodwill of $0.9 million. The amounts reported in the 31 December 2018 financial accounts were termed provisional as the share-settled contingent consideration was yet to be determined. As disclosed in note 6.1(b), these balances have been restated in the December 2018 comparatives, with the contingent consideration being valued at $2.3 million as at the date of acquisition. During the period $0.8 million of the contingent consideration was paid in the form of shares. Further, the revised probability of achieving SCS volumes and performance targets as at 31 December 2019 has resulted in a fair value measurement gain of $0.5 million. We have included the measurement of iProximity contingent consideration as a key audit matter due to: - The size of contingent consideration and the impact of the fair value measurement - the level of management judgement required to estimate the probability of share sale agreement targets being met.	• We read the share sale agreement and management's supporting documents in order to understand the SCS volumes and performance targets to be met • We worked with our internal valuation specialists to challenge the fair value measurement of contingent consideration and the appropriateness of the valuation method • We challenged key assumptions used by management in the estimation of contingent consideration, including the probability of achieving SCS volumes and performance targets • We recalculated the fair value of the contingent consideration at 31 December 2018, 30 June 2019 and 31 December 2019 to validate measurement gains or losses through the profit and loss statement.

Other matter - independence

Until 30 November 2019, a Deloitte member firm in an overseas jurisdiction provided payroll preparation services to an overseas subsidiary within the Group. When Deloitte was appointed auditor of the Group in October 2019, the provision of these services resulted in a breach of Professional Ethical Standard 1 regarding auditor independence. In order to mitigate this breach, Deloitte engaged an independent firm to audit the payroll expense and balance of the subsidiary, and ceased provision of the payroll preparation service. There were no matters arising from the procedures performed by the engaged firm and as such no impacts on the 2019 consolidated financial statements were identified arising from the breach.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Melissa Collier, Partner for Deloitte Limited
Auckland, New Zealand
28 February 2020

This audit report relates to the consolidated financial statements of Wellington Drive Technologies Limited (the 'Company') for the year ended 31 December 2019 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 28 February 2020 to confirm the information included in the audited consolidated financial statements presented on this website.

Statutory information

Introduction

Directors have resolved that no dividend be declared payable.

The company does not have a credit rating.

Remuneration of Directors

During the year the following remuneration was paid or payable to directors:

	2019	2018
Mr T. Nowell [1]	**$12,115**	$50,000
Dr L. Jacobs	**$44,583**	$30,000
Mr G. Pausch [2]	**$41,667**	$30,000
Mr J. McMahon [3]	**$56,667**	$30,000
Mr J. Scott [5]	**$35,032**	-
Mr K Oliver [4 & 5]	**$33,750**	-

Note
1. Mr Nowell resigned in March 2019.
2. Fees for Mr G. Pausch are paid to Board Advisory Services Ltd.
3. Fees for Mr J. McMahon are paid to Meta Capital Ltd.
4. Fees for Mr K Oliver are paid to Alto Capital Ltd.
5. Mr Scott and Mr Oliver were both appointed as directors in 2019.

Interested transactions

The Directors have disclosed the following transactions with the company:

- Interested transactions: In June 2019 the company exercised its option to extend the repayment date of the US$600,000 unsecured loan from Meta Capital Limited to 31 March 2020. Meta Capital Limited is a company related to John McMahon, a director. By agreement, the loan was repaid in full in December 2019. Further details of the loan are in note 4.1. There have been no other transactions during the year with interested or related parties of the directors.
- Directors' remuneration: remuneration details of directors are provided above.
- Indemnification and insurance of officers and directors: The company indemnifies directors and executive officers of the group against all liabilities which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the group has indemnity insurance. The total cost of this insurance expensed during the year ended 31 December 2019 was $67,763 (2018 - $49,033).
- Directors' share transactions: On 29 November 2019, pursuant to a pro-rata renounceable rights issue, Meta Capital Limited and Auro Investment Management Pty Limited, companies related to John McMahon, were issued 2,431,316 ordinary shares. 177,080 ordinary shares were issued to Gottfried Pausch at the same time. There were no other changes in directors' shareholdings during the 2019 year. Details of numbers of shares held by directors are shown below.
- Directors' loans: There were no loans by the company to directors.
- The Board received no notices during the year from directors requesting to use company information received in their capacity as directors which would not otherwise have been available to them.
- Loan to employee by Mr J McMahon - In April 2019, Mr J McMahon, a director of the company, in his private capacity, provided a $14,516.05 interest-free bridging loan to an employee to enable the employee to exercise his entitlement under the US Employees Option Plan.

Directors' Shareholding

	31 December 2019		31 December 2018	
Ordinary shares	Total Relevant Interest	Direct	Total Relevant Interest	Direct
Mr J. McMahon	**12,471,769**	**-**	10,040,453	-
Mr G. Pausch	**-**	**1,062,480**	-	885,400

Mr T Nowell had a relevant interest in 280,458 shares at 31 December 2018. He was not a director at 31 December 2019.

Employees

The number of employees, other than directors, within the group receiving remuneration and benefits above $100,000, as is required to be disclosed in accordance with section 211(1) (g) of the Companies Act 1993, is indicated in the following table.

	GROUP	
	2019	2018
$100,000 - $109,999	**3**	6
$110,000 - $119,999	**3**	2
$120,000 - $129,999	**2**	5
$130,000 - $139,999	**-**	2
$140,000 - $149,999	**5**	3
$150,000 - $159,999	**6**	-
$160,000 - $169,999	**-**	1
$170,000 - $179,999	**1**	1
$180,000 - $189,999	**-**	1
$190,000 - $199,999	**1**	1
$210,000 - $219,999	**2**	-

	GROUP	
	2019	2018
$220,000 - $229,999	**2**	1
$230,000 - $239,999	**-**	2
$240,000 - $249,999	**-**	1
$250,000 - $259,999	**2**	-
$260,000 - $269,999	**2**	1
$270,000 - $279,999	**1**	-
$300,000 - $309,999	**-**	1
$340,000 - $349,999	**1**	-
$390,000 - $399,999	**1**	1
$640,000 - $649,999	**1**	1

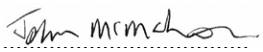
NZX waivers

There were no waivers granted by the NZ Exchange during the year ended 31 December 2019 (as defined in the accordance with NZ Stock Exchange Listing Rule 10.5.3(f)).

Auditors

Deloitte was appointed auditors by the directors in October 2019 following the resignation of PricewaterhouseCoopers. In accordance with Section 200 of the Companies' Act 1993, the auditor, Deloitte, continues in office.

For and on behalf of the Board



J McMahon
Chairman

28 February 2020

Shareholder information

Shareholders

As at 31 December 2019 there were 2,597 shareholders holding 322,707,005 fully paid ordinary shares.

Share issues

There were issues of shares in July 2019 and December 2019 totalling 4,724,482 shares in partial settlement of the purchase price for the acquisition of iProximity Pty Limited.

During the year there were issues of shares to employees on the exercise of rights to part paid shares and US employee share options (exercised in accordance the company's long-term incentive scheme as outlined in notes 4.3 and 6.2). The amount received by the company on exercise was $597,000.

In November 2019, the company issued 53,232,829 shares pursuant to a 1:5 rights issue at $0.10 per ordinary share. The company received $5,171,000 net of issue expenses.

There were no other issues of shares in 2019.

Shareholder details

The ordinary shares of Wellington Drive Technologies Limited are listed on the New Zealand Stock Exchange. The information in the disclosures below has been taken from the company's share register at 10 February 2020:

20 largest shareholders		Ordinary Shares
1.	N.Z. Central Securities Depository Ltd[1]	53,535,217
2.	N.Z Depository Nominee Ltd	31,413,941
3.	East West Manufacturing LLC	25,218,701
4.	M.W Daniel & N.G. Burton (Wairahi)	16,100,000
5.	Ballynagarrick Investments Ltd	15,635,103
6.	ASB Nominees Ltd (Meta Capital Ltd)	12,381,899
7.	Investment Custodial Services Ltd	12,146,962
8.	Graham Trustees Ltd	11,600,808
9.	EWNZ Ltd	8,646,336
10.	Leveraged Equities Finance Ltd	6,813,292
11.	Jarden Securities Ltd	6,566,847
12.	Flynn No 2 Trustees Ltd	6,423,569
13.	Greg Allen	5,888,049
14.	FNZ Custodians Ltd	4,967,668
15.	Howard Duncan Milliner	2,652,421
16.	D.J Howell & H.J.A Howell (Rivendale)	2,586,922
17.	Sujin Boonchuay	2,503,975
18.	Lean Holdings Pty Ltd	2,503,725
19.	S.C Montgomery	2,500,000
20.	Circada Ltd	2,400,000

[1] N.Z. Central Deposit Securities Depository Limited holds shares on trust for 10 different shareholders. The largest of these are: TEA Custodians Ltd Client Property Trust -15,930,802 shares; HSBC Nominees (NZ) Ltd – 12,294,603 shares; BNP Paribas Nominees (N.Z.) Ltd - 5,583,800 shares; Accident Compensation Corporation - 4,899,994 shares, BNP Paribas Nominees (N.Z.) Ltd – 4,524,987 shares, JP Morgan Chase Bank NA NZ Branch – 4,464,396 shares, NZ Permanent Trustees Ltd – 3,141,322 shares, Public Trust RIF Nominees – 1,685,032 shares.

Distribution of equity securities

Ordinary Shares			Shareholders		Fully Paid Ordinary Shares	
Size of holdings (at 10 February 2020)			Number	%	Number	%
1	-	999	893	34.20	293,264	0.09
1,000	-	1,999	227	8.69	304,434	0.09
2,000	-	4,999	356	13.64	1,105,385	0.34
5,000	-	9,999	305	11.68	2,078,803	0.64
10,000	-	49,999	509	19.49	11,567,538	3.58
50,000	-	99,999	118	4.52	7,728,624	2.40
100,000	-	499,999	140	5.36	27,161,538	8.42
500,000	-	999,999	26	1.00	16,417,129	5.09
over		1,000,000	37	1.42	256,050,290	79.35
			2,611	100.00	322,707,005	100.00

2,474 (or 94.75%) shareholders, holding 286,853,711 shares (or 88.89%) reside in New Zealand.

Substantial product holders

Pursuant to section 26 of the Securities Markets Act 1988, details of substantial product holders and their total relevant interests as per their most recent notices are:

Name	Number of shares[2]	Date of Notice
Jarden Securities Ltd & Harbour Asset Management Ltd	49,615,048	20 December 2019
Smartshares Limited (Custodian – BNP Paribas Nominees (NZ) Ltd)	31,024,819	19 December 2019
East West Manufacturing, LLC	26,433,333	5 June 2018

[2] Number of shares is taken from notices received. No adjustments have been made for changes that may have subsequently occurred from the dates of notices stated. The definition of "relevant interest" in the Securities Markets Act 1988 provides that more than one relevant interest can exist in respect of the same securities.

Shareholder enquiries

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the directory on page 69. Notification must be in writing. Questions relating to shareholdings should also be addressed to Computershare Investor Services Limited. For information about the group please contact the company at the registered office by sending an email to info@wdtl.com or visit our website http:/www.wdtl.com.

Announcements to shareholders

The company has established an email list of shareholders that want to receive announcements made by Wellington Drive to the New Zealand Stock Exchange. Announcements are emailed to shareholders who wish to receive them shortly after they are released. This will include the annual meeting addresses. If you want to be added to this listing, please email info@wdtl.com and advise us of your email address. Your email details will be kept confidential.

Announcements are also posted on our website www.wdtl.com normally the day after they are released.

Corporate governance

The Board and Management of Wellington Drive Technologies Limited are committed to acting with integrity and expect high standards of behaviour and accountability from all the company's officers and staff.

Role of the Board

The Board's primary objective is the enhancement of shareholder value by following a set of core principles, appropriate governance and ethical strategies and ensuring effective and innovative use of company resources. The Board is responsible for the management oversight, supervision and direction of the group. Day-to-day management of the group is delegated to the Chief Executive Officer.

Compliance

The governance principles adopted by the Board are designed to meet best practice recommendations for listed companies to the extent that they are appropriate to the size and nature of Wellington's operations. The Board endorses the overall principles embodied in the NZX Corporate Governance Code 2019 (the NZX Code) and believes the company's corporate governance principles, policies and practices are appropriately aligned with the NZX Code.

The company is reporting against the recommendations in the NZX Code, by describing below the corporate governance policies and practices Wellington has in place and highlighting the small number of areas of the NZX Code where we have not fully followed the Code's recommendations.

Wellington takes a "continuous-improvement" approach to corporate governance. Our governance programme over the last year included the review of policies and committee charters.

This statement is current to 28 February 2020 and has been approved by the Wellington Board of Directors.

Board and committee charters, codes and policies referred to in this section are available to view at www.wdtl.com/governance.

NZX Code

Principle 1 – Code of ethical behaviour

The company is committed to transparency and fairness in dealing with all its stakeholders and to ensuring adherence to all applicable laws and regulations. The company expects its directors, officers, and employees to maintain high standards of ethical conduct and expects employees to act legally, ethically and with integrity in a manner consistent with the policies and guiding principles that are in place. These include the following:

> *"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."*

- **Code of Business Conduct and Ethics for Wellington team members and directors:** Wellington team members are committed to being ethically and socially responsible and our business decisions should reflect our values, acting within the laws of the countries in which it operates. The code, which can be found at http://www.wdtl.com/governance, provides a guide to these general principles of conduct and ethics. It brings together all our policy principles and provides a working guide for directors and employees to ***do the right thing*** when making decisions in our daily activities, and to:
  - ✓ Act safely, ethically and responsibly;
  - ✓ Act in Wellington's best interests always;
  - ✓ Protect the confidentiality of Wellington's business information;
  - ✓ Always comply with the principles in the Code, the legal and regulatory obligations in their country and the spirit of the law;
  - ✓ Hold their colleagues accountable for behaving ethically and following the Code;

- ✓ Not engage in any activity whether within or outside of the workplace that is likely to bring Wellington into disrepute;
- ✓ Deal honestly with Wellington's people, customers, shareholders, suppliers and other stakeholders;
- ✓ Ensure that they do not knowingly enter into transactions or make commitments on behalf of Wellington that the company cannot or does not intend to fully honour;
- ✓ Undertake their duties with care and diligence;
- ✓ Ensure that any personal opinions Wellington people express are clearly identified as their own and are not represented to be the views of the company;
- ✓ Value individuals' differences and treat people with respect;
- ✓ To the best of their ability, ensure that Wellington's records and documents, including financial reports, are true, correct and conform to Wellington's reporting standards and internal controls;
- ✓ Not accept or offer bribes or improper inducements; and
- ✓ Speak up about unsafe or unethical behaviours.

The Code includes a policy regarding a respectful workplace and diversity, requiring equal opportunity for all.

Wellington is committed to attracting, developing and advancing the best person for the role. Selection processes for recruitment and employee development are unbiased and based on merit. Wellington values diversity and has a workforce consisting of individuals with diverse skills, values, backgrounds, gender, ethnicity and experience. Any form of discrimination, bullying or harassment is not tolerated.

Wellington takes the Code seriously. It is the responsibility of all Wellington people globally to promptly bring suspected violations to the attention of the company, for the benefit of all.

- **Rules for Trading in Wellington Securities:** The Rules for Trading in Wellington Securities, which can be found at http://www.wdtl.com/governance, require all staff and directors to seek approval in accordance with the rules before buying or selling any Wellington securities. The policy details “blackout periods” where trading is forbidden, as well as a process for authorisation at all other times.

The company has an ongoing programme to maintain employee awareness and understanding of these ethical standards and policies.

“To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.”

Principle 2 – Board composition and performance

The Wellington Board comprises directors with an appropriate range and mix of skills and experience; who have a proper understanding of, and competence to deal with, current and emerging issues of the business; and who can effectively review and challenge the performance of management and exercise judgment independent of management. The Board’s structure and governance arrangements are set out in the Wellington Board Charter which can be found at http://www.wdtl.com/governance.

The Wellington Constitution provides that there will be not less than three and not more than eight directors. NZ Stock Exchange requirements are that at least two directors or one-third, are independent directors. The Board Charter requires that a majority of directors are independent and sets out circumstances in which a director will not be regarded as independent. We assess director independence as a Board against the criteria in the NZX Listing Rules and in the Board Charter. The Board currently has five directors, all of whom are considered independent except for John McMahon who is non-independent.

Profiles of all directors and their dates of appointment are set out in the Directors section of this Annual Report on page 13 and are available on the company’s website. The company does not comply with Recommendation 2.9 of the NZX Code because Chairman John McMahon is a director of NZX Limited, the parent company of Smartshares Limited, which is a substantial product holder of the company with approximately 9.6% of the issued ordinary shares of the company. Given this, the Board does not regard Mr McMahon to be an independent director of the company.

As the Board is small, the company has not established a separate nomination committee, believing these matters are best dealt with by the full Board of Directors. Periodically the Board evaluates its performance, composition, size, diversity and mix of skills. The method of review is determined by the chairperson annually and may include interviews, questionnaires and/or external review. The Board is satisfied that it is operating well and that the performance processes we have used are both effective and suited to the company.

When a decision is made to recruit a new director, the Board identifies candidates with a mix of capabilities and perspectives considered necessary for the Board to carry out its responsibilities effectively. The Board also considers the skills of the existing directors to ensure that the skills of the new director will complement and add to the effectiveness of decision making. We make appropriate pre-appointment checks on the background and suitability of all directors. New Board members enter into a written agreement establishing the terms of their appointment. A director appointed by the Board must stand for election at the next annual meeting. Listing Rule 2.7.1 requires directors to stand for re-election on the later of three years and the third annual shareholders' meeting after their appointment. Retiring directors are eligible for re-election.

Directors undertake appropriate education to remain current in how to best perform their duties as directors. Directors are encouraged to attend courses and maintain membership of relevant bodies, such as the Institute of Directors.

Directors receive information independently from management in relation to specific issues relevant to Wellington, the markets in which the company operates and to NZX listed companies generally. All directors have access to management for any additional information they consider necessary for informed decision making.

The company recognises our people are critical to our business. Wellington has a very small number of employees, a significant number of which are based outside of New Zealand, which makes it challenging for the company to adopt any formal targets in relation to diversity as is recommended by the NZX Code. While we do not have any such formal targets, Wellington values and respects the contributions, ideas and experiences of people from all backgrounds and is proud to have a diverse company with staff from around the world and from many cultures. As stated, the company has a diversity policy included in its Code of Business Conduct and Ethics, and is committed to attracting, developing and advancing the best person for the role. Attracting the best person for a role may involve a global search for a suitable candidate and that selection may add to our diversity. Wellington recognises diversity brings a range of ideas, skills and innovation to the company, which is important to the achievement of our objectives.

During 2020, the company will continue to strive to ensure the best person for the role is identified in the recruitment process for all positions becoming available and will strive to ensure it continues to improve diversity in its workforce. It will ensure gender, race, sexual orientation, disability, age, religious or other bias are not present in hiring decisions. The company aims to encourage development of its existing staff through global re-deployment and training.

Diversity by gender statistics

In accordance with NZX Listing Rule 3.8.1 the company makes the following diversity disclosures:

	Male		Female		
31 December 2019	#	%	#	%	Total
Board	4	80%	1	20%	5
Senior management team*	6	100%	-	-	6
Other staff	58	76%	18	24%	76
Total company	68	78%	19	22%	87

	Male		Female		
31 December 2018	#	%	#	%	Total
Board	3	75%	1	25%	4
Senior management team*	6	100%	-	-	6
Other staff	56	77%	17	23%	73
Total company	65	78%	18	22%	83

*The senior management team comprises of the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO. The senior management team are "officers" for the purpose of the NZX Listing Rules.

Principle 3 – Board committees

The Board has established a number of committees to guide and assist them with overseeing certain aspects of corporate governance. These committees are the Audit and Risk Committee, the Technology and Innovation Committee and the Executive Appointment and Remuneration Committee. Each committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

> *"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."*

Audit and Risk Committee

The Audit and Risk Committee operates under a charter approved by the Board and assists the Board in: taking reasonable steps to acquire and maintain up-to-date knowledge of enterprise risk management; overseeing the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements; the appropriateness of accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements; and the business's relationship with, and the independence of, the external auditor.

The committee also approves any non-audit work carried out by the company's auditor and ensures that the lead partner in the audit firm is rotated every five years.

The committee is composed of three non-executive directors, two of whom are independent.

The current members are Lisbeth Jacobs (Chairwoman), Keith Oliver and John McMahon (non-independent).

The Audit and Risk Committee charter can be found at http://www.wdtl.com/governance.

Executive Appointment and Remuneration Committee

The Executive Appointment and Remuneration Committee operates under a charter approved by the Board and assists the Board in: the remuneration and appointment of the senior executive team; management succession planning; reviewing and approving compensation arrangements; establishing employee incentive schemes and the remuneration of the Board. The committee also advises on proposals for significant company-wide remuneration policies and programmes. In carrying out this role, the sub-committee operates independently of senior management of the company and, where appropriate, obtains independent advice on remuneration policy and packages.

The current members are Gottfried Pausch (Chairman) and John McMahon.

The Executive Appointment and Remuneration Committee charter can be found at http://www.wdtl.com/governance.

Technology and Innovation Committee

The Technology and Innovation Committee operates under a charter approved by the Board and assists the Board in overseeing and providing counsel on overall strategy, direction and effectiveness of technology and innovation activities.

The current members are Lisbeth Jacobs (Chairwoman) and Gottfried Pausch.

The Technology and Innovation Committee charter can be found at http://www.wdtl.com/governance.

Other committees

From time-to-time the Board may establish a committee to assist in the management of a matter or project. In 2019 a Capital Planning Committee operated to oversee the strategic investment and funding requirements for the company.

The company has established protocols for dealing with a takeover should an offer be received.

Health and safety

Whilst not a committee of Board members, Wellington has a Health and Safety Committee that meets monthly and reports to the Board. The company is strongly committed to maintaining a safe and healthy workplace and believes all accidents are preventable. The committee is made up of a mix of senior management and staff from key operational areas. The committee strives to: maintain and continually improve our health and safety systems; proactively identify hazards and take

all steps to eliminate or mitigate these; consult and actively promote participation in health and safety matters throughout the company.

The health and safety policy can be found at http://www.wdtl.com/governance.

Principle 4 – Reporting and disclosure

The company is committed to ensuring integrity and timeliness of its financial reporting and in providing information to the market and shareholders.

> *"The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."*

Financial reporting

The Board has overall responsibility for ensuring the integrity of the company's reporting to shareholders, including for financial statements that comply with generally accepted accounting practice. The Audit and Risk Committee assists the Board to fulfil its responsibilities in this area. The committee makes enquiries of management and the external auditors (including requiring management representations) so that the company can be satisfied as to the validity and accuracy of all aspects of Wellington's financial reporting.

The CEO and CFO certify to the Board that: the annual report is true, and the statements therein are not materially misleading; and no matters in the annual report (as a result of subsequent events) would make any of the statements untrue or materially misleading.

Wellington strives to improve the clarity and readability of its financial statements, while continuing to comply with all the requirements of the financial reporting standards including the Companies Act 1993, the Financial Markets Conduct Act 2013, and the Listing Rules.

Continuous disclosure

The company has a formal Group Market Disclosure Policy that can be found at http://www.wdtl.com/governance. The policy seeks to promote investor confidence by ensuring that dealing in its securities takes place in an efficient, competitive and informed market. The company strives to ensure that all investors have equal and timely access to market sensitive information. That disclosure be evenly balanced (during good times and bad) and this is fundamental to building shareholder value and earning the trust of staff, customers, suppliers, communities and shareholders.

The Board reviews and approves material announcements and specifically considers with management at each Board meeting whether there are any issues which might require disclosure to the market under the NZX continuous disclosure requirements.

Trading in shares

Wellington is committed to transparency and fairness in dealing with all its stakeholders and to ensuring adherence to all applicable laws and regulations.

Wellington has a detailed share trading policy, the Rules for Trading in Wellington Securities that can be found at http://www.wdtl.com/governance, which applies to all directors and employees. No director or employee may use confidential non-public price sensitive information in his or her position to engage in securities trading for personal benefit or to provide benefit to any third party. Short-term trading in Wellington shares and buying or selling (while in possession of non-public price-sensitive information) is strictly prohibited.

All directors and employees must obtain consent to trade in securities prior to trading. A majority of members of the Board need to consent to the application. Once these consents have been received the Chair of the Wellington Board or (where the Chair is unavailable) the Chair of the Board's Audit and Risk Committee, will approve or decline the application. The company monitors trading and reports share movements to the Board at every meeting.

Information for investors

Wellington's investor website http://www.wdtl.com/news-and-information includes the company's reports, investor communications, audio and video releases and the Policies and Charters referred to in this section. The Annual and Interim Report is available in electronic and hard copy format.

The annual meeting is planned to be held on 27 May 2020. All shareholders are welcome to attend and ask questions. The external auditor, Deloitte will be in attendance to answer questions about the audit and their audit report. A notice of meeting will be sent to shareholders in April 2020.

Principle 5 – Remuneration

The Executive Appointment and Remuneration Committee is responsible for ensuring directors and executives receive the appropriate rewards to support Wellington in achieving its commercial and stakeholder goals. The Executive Appointment and Remuneration Committee has a formal charter. Its membership and role are set out under Principle 3 above.

> *"The remuneration of directors and executives should be transparent, fair and reasonable."*

Director remuneration

Directors' fees are currently set at a maximum of $400,000 per annum. This was approved by shareholders at the 2019 Annual Meeting. Directors' fees paid in the 2019 financial year amounted to $223,814, due to the small size of the Board. Full disclosure of director remuneration is set out on page 56. Other than from directors' fees, no director is entitled to any other remuneration or retirement benefits from Wellington. Directors are entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings or otherwise in connection with Wellington business.

The Executive Appointment and Remuneration Committee conducts an annual review of directors' fees, to determine whether the level of fees paid to the company's chairperson and other non-executive directors is aligned with other organisations of similar scale and scope. Any increases in fees paid to directors must be authorised by the Board and be within the above cap approved by shareholders.

Remuneration

Wellington's approach is to pay a base salary and a performance-based bonus that includes a short-term and a long-term incentive component. This ensures executive motivation is aligned with the goals of the company in the short and long term.

Base salary

As stated, the company recognises our people are critical to our business and its growth strategies. Wellington's remuneration strategy is to pay executives a remuneration that is fair and reasonable in a competitive market for the skills, knowledge and experience required by the company. Salaries are determined for their current position in the market using relevant and up to date market benchmark data and an individual's performance and are reviewed annually. Many of our employees are based outside of New Zealand and remuneration varies by location in accordance with the local market.

Short-Term Incentive

Our Short-Term Incentive (STI) model is focused on delivering financial and business improvement performance goals, predicated on measurable outcomes, differentiating high performance, and rewarding delivery. The STI programme applies only to key management and other selected staff members. STI values are calculated as a percentage of base salary, ranging between 10% to 33% for eligible employees. Executive team STI payments are determined following a Board level review of the company's and the individual's performance and may be paid out at between zero to 100% of an individual's STI target. It is possible for an executive to achieve 200% on financial metrics if targets are substantially overachieved.

Employee share purchase plans

Wellington has two Long Term Incentive (LTI) share purchase plans, a partly paid share scheme which has been operating since 2008 and the United States employee share option plan which has operated since 2010. Details of both plans and the partly paid share issues or options currently outstanding are on page 46 and 47. Both schemes involve the issue, once all LTI plan requirements have been met, of shares in Wellington to employees at a price of 20% to 30% premium to the market price of Wellington shares at the time of their initial issue to the Share Trustee (in the case of partly paid shares) or time of grant (in the case of options). This is also the market share price hurdle that must be met before the employees can take up their shares. Selected employees are offered shares or options, although options are not available to New Zealand based employees. The shares or options vest in either two or three years following their grant (unless extended by the Board) if the share price hurdle price has been met and must be exercised within a specified period after that date by paying the balance due for the part paid shares or options. Any rights to acquire shares that are not taken up lapse.

During FY2019, 6,649,896 rights to acquire shares were exercised under the Partly Paid Share Scheme and 760,013 options were exercised under the United States employee share option plan.

In 2020 the company is reviewing the structure of its long-term incentive plans to ensure that they continue to be fit for purpose to retain and attract the right talent for the business.

CEO remuneration

The following table sets out the payments made to the CEO during FY2019.

Fixed remuneration	$492,000
Short term incentive (for FY2018)	$150,388
Total remuneration	$642,388

Break down of CEO pay for performance (FY2018):

- ***Short Term Incentive:*** The CEO is eligible for an annual STI target payment of 30% of base salary based on a combination of Board-approved financial and business improvement objectives being achieved, with 60% of that target from agreed economic objectives and 40% of that target from agreed management objectives. Overachievement on financial targets is possible up to a maximum of 200% if financial objectives are substantially overachieved.
- The Board of Directors must approve any STI payment and such payment will only be made if a minimum EBITDA threshold level is achieved.

The table below shows the structure of the CEO's STI for FY2019:

Measurable Outcome	Weighting	Total if achieved	Overachieve % (if achieved)	Percentage achieved in 2018
Revenue	35%	60%	35% x 60% x 2	200%
Gross Margin	25%		25% x 60% x 2	6.25%
ECR Unit Sales	15%	40%	Nil	100%
SCS Unit Sales	15%		Nil	100%
SCS Click Unit Sales	10%		Nil	5%

Note: Partial achievement of objectives and thus partial payment is possible under the STI programme.

- ***Long term incentive:*** The company's long-term incentive plan does not involve the payment of cash to the CEO. 1,260,587 part paid shares have been issued to date to the share trustee on behalf of the CEO under the partly paid share scheme and which are still outstanding. These were issued on 18 June 2014 - 1,260,587 shares with a hurdle price of 14.22 cents. Further details of these part paid shares can be found on page 46.

Principle 6 – Risk management

The identification and effective management of the company's risks are a priority of the Board.

> *"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."*

As discussed previously, the Board has established an Audit and Risk Committee to assist the Board in oversight, monitoring and review of risk. Bi-annually there is a review of the entire risk landscape to establish a forward-looking perspective on business risks, both financial and non-financial, in both the internal and external environment. The committee provides a forum for discussion of risk, including the Board's appetite for risk, with the CEO and management. The CEO and senior management team are required to regularly identify the major risks affecting the business and to develop strategies to mitigate these risks. Significant risks are discussed at each Board meeting, or as required.

The company maintains insurance policies that it considers adequate to meet the insurable risks of the group. Exposure to any foreign exchange risk is managed in accordance with policies laid down by the directors.

The Health and Safety Committee meets monthly and reports to the Board on health, safety and wellbeing matters. Minutes of the Health and Safety Committee are a priority agenda item at all Board meetings and specific reviews are sought as required. The committee continuously reviews health and safety risks and systems used to identify and manage those risks, ensuring they are fit for purpose, are being effectively implemented, regularly reviewed and improved. The frequency of incidents has been low and no Accident Compensation claims involving the company have been recorded

for several years. The Board undertakes ongoing health and safety education and visits key operational sites on a regular schedule.

Principle 7 – Auditors

Oversight of Wellington's external audit arrangements is the responsibility of the Audit and Risk Committee.

> *The Board should ensure the quality and independence of the external audit process.*

The company has adopted a policy to ensure that audit independence is maintained, both in fact and appearance, such that Wellington's external financial reporting is viewed as being reliable and credible. The policy covers the following areas:

- The external auditor must always remain independent of the company and comply with the New Zealand Institute of Chartered Accountants' (NZICA) Code of Ethics;
- The external auditor must monitor its independence and report to the Board that it has remained independent;
- Guidelines in relation to the provision of non-audit services by the external auditor in order that the provision of such services does not impair the external auditor's independence or objectivity;
- The audit firm may be permitted to provide non-audit services that are not considered to conflict with the preservation of the independence of the auditor subject to the approval of the Audit and Risk Committee; and
- The Audit and Risk Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor.

Deloitte was appointed the external auditor of Wellington during 2019 replacing PricewaterhouseCoopers. This followed a review by our Audit and Risk Committee of proposals from three audit firms. The Committee recommended the appointment of Deloitte due to their experience with other listed entities at a similar stage to Wellington. Melissa Collier of Deloitte is the engagement partner for the company.

During 2019 other services provided by Deloitte amounted to $31,000 relating to tax compliance and payroll services.

To ensure full and frank dialogue between the Audit and Risk Committee and the auditors, the auditor's senior representatives meet separately with the committee (without management present) at least twice a year, including immediately before finalisation and release of the company's half-year and full-year financial results to the market.

Due to its size, the company does not have an internal audit function as is recommended by the NZX Code. As discussed above, the CEO is accountable for all operational and compliance risks across the company's operations and businesses. The CFO has management accountability for the effective implementation and improvement of internal systems and controls.

Representatives of the company's external auditor, Deloitte are invited to attend the annual shareholders meeting where they are available to answer shareholders' questions relevant to the audit.

Principle 8 – Shareholder rights and relations

The Board's policy is to ensure (in an open and transparent manner) that shareholders are informed of all major and strategic developments affecting the company.

> *The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.*

We provide information about who we are, including our governance policies, on our website for investors to access at any time.

The company releases all material information via the NZX in accordance with its continuous disclosure requirements. All major disclosures are also posted on the company's website (http://www.wdtl.com/news-and-information) on a timely basis. Audio files of investor conference calls held with institutional and large investors are also available on the company's website.

Shareholders can directly communicate with the company via http://www.wdtl.com/contact-investors. Our CEO and CFO

also respond directly to shareholder phone calls and emails.

Shareholders are encouraged to receive all shareholder communications by email. The company provides a printed copy of its Interim and annual reports to shareholders who have elected to receive printed copies. Interim and annual reports are available on the company's website in accordance with the requirements of the NZ Companies Act 1993.

The company’s share register is managed and maintained by Computershare. Shareholders can access their shareholding details or make enquiries about their current shareholding interests electronically.

Notices of annual meetings are made available as soon as possible and posted on the website of the company usually more than one month prior to the meeting.

Shareholders are encouraged to attend, participate and vote at meetings or appoint a proxy on their behalf, or submit a postal vote, if they are unable to attend. Results of proxies and postal votes are summarised and disclosed at the meeting. Results of meetings are announced as soon as possible following the closure of the shareholder meeting.

Directory

Directors

John McMahon, *Chairman*

Dr Lisbeth Jacobs

Mr Gottfried Pausch

Mr John Scott

Mr Keith Oliver

Senior Staff

Greg Allen, *Chief Executive Officer*

Steven Hodgson, *Senior Vice President Commercial*

David Howell, *Chief Technical Officer*

Howard Milliner, *Chief Financial Officer*

Marc Tinsel, *Head of Manufacturing*

Peter Barnes, *Global Quality Leader*

David Burden, *VP Group Marketing & IoT Products*

Ali Karahasanoğlu, *Sales Director, Europe/Eurasia*

Jorge Civeira, *Business Development & Commercial, Americas*

Gerardo Gonzalez, *VP Global Business Development*

Clayton Thomas, *Sales & Marketing Director, Asia / Pacific*

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Auditor

Deloitte Limited

80 Queen Street, Auckland CBD, Auckland 1010

Banker

Bank of New Zealand

Share Registry

Computershare Investor Services Ltd,

Private Bag 92119, Auckland 1142,

New Zealand

Annual report
2019

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