

Beyond the Motor



Wellington®

Annual Report 2014

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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). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular, Wellington's operations and results are significantly influenced by the extent to which energy efficient motor technology is promoted in Wellington's key markets, competitor product development and demand and pricing, fluctuations in key commodity prices or costs in the countries of Wellington's suppliers, availability of key components, relative exchange rates and profitability of customers, all of which can have a substantial impact on Wellington's results of operations and financial condition. Other risks include customer concentration risk and misuse of Wellington's intellectual property.

Our Business

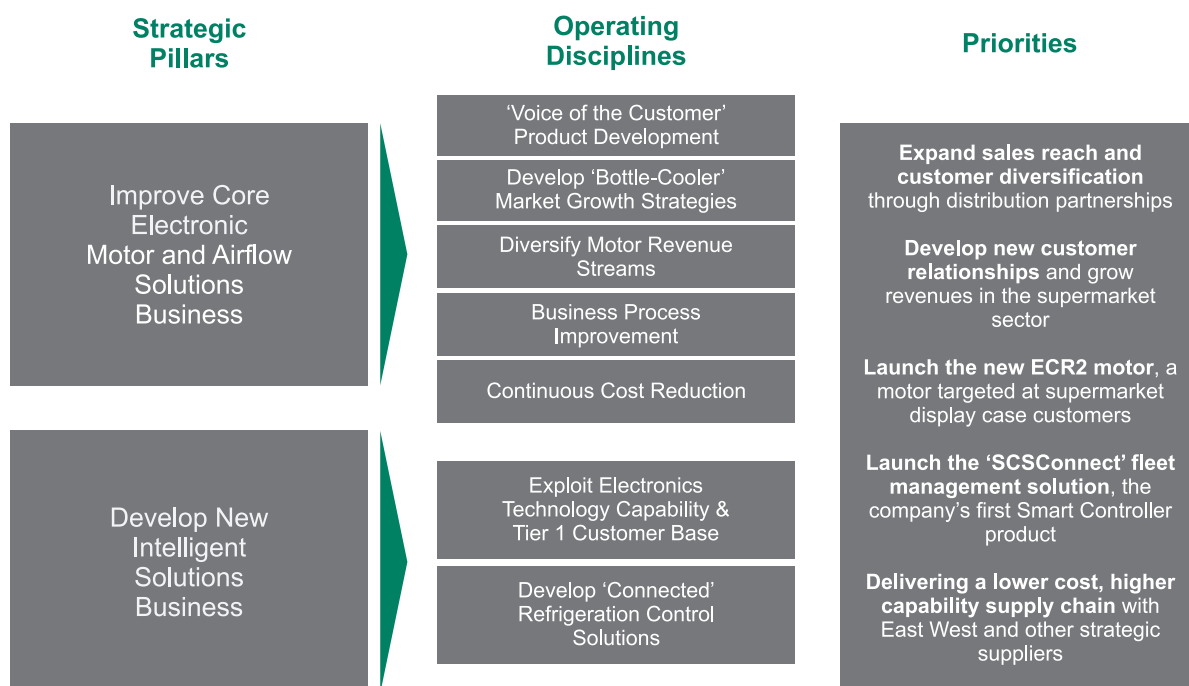
Mission

Wellington's mission is to deliver solutions to solve its customers' commercial refrigeration energy efficiency and system control problems, through the development of Advanced Electronic Motors, Airflow Solutions and Intelligent Refrigeration Controllers. Personal service, reliable products, smart solutions and relentless pursuit of excellence will ensure Wellington leads the competition and builds a world class company.



Our Strategic Pillars

Since the beginning of 2012 Wellington's strategy has been driven by the need to move 'Beyond the Motor' and provide customers with innovative new products, supported by a low cost supply chain, leading to diversified revenues and improving profitability.



The two pillars of the company strategy, which have remained consistent since 2012, are:

- Continuous improvement in the core Electronic Motor and Airflow Solutions business through customer driven product development, executing core 'bottle cooler' market growth plans, diversifying motor revenue streams, developing new markets, improving business process and delivering continual cost reduction.
- Innovating for customers by developing Intelligent Refrigeration Controllers that reduce total cost of ownership of the refrigeration system by solving customers' maintenance problems and providing connectivity solutions that improve the operational and sales performance of the refrigerator.

Wellington expects to achieve a profit turnaround and revenue diversification by pursuing the following strategic priorities:

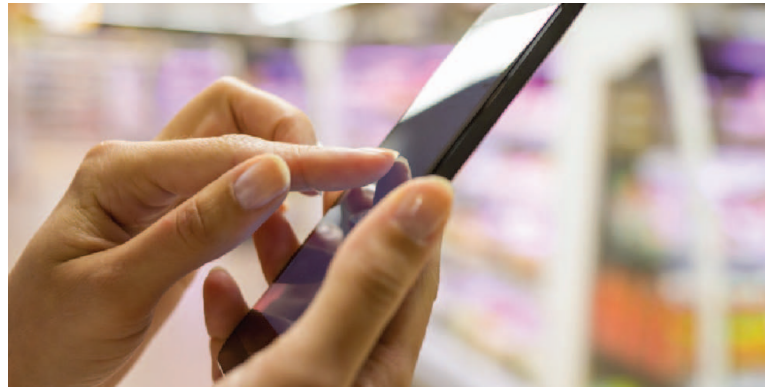
1. Expanding geographical reach and customer diversification through sales distribution partnerships.
2. Developing new customer relationships and growing revenues in the supermarket sector.
3. Launching the new ECR2 motor, a motor targeted at supporting supermarket display case customers.
4. Launching the SCSCConnect fleet management solution, Wellington's first Smart Controller product.
5. Delivering a lower cost, higher capability supply chain in partnership with East West and other strategic suppliers.

Our Products

Wellington serves customers in the refrigerated display case market with its motor, airflow and 'connected' controller solutions operating in beverage coolers, ice cream and food freezers and supermarket display cases. The product portfolio provides a range of refrigeration solutions designed to improve refrigeration efficiency, optimise airflow and reduce the total cost of ownership through improving the way customers manage their refrigeration fleet.

Alongside its advanced Energy Efficient Motor products, Wellington also sells a standard shaded pole motor range, branded AMV. Both motor product lines take advantage of specially designed fan blades with motor and fan combinations working together to improve energy consumption and optimise airflow.

In the second half of 2015, sales of the latest products are expected to commence with the ECR2 motor and the SCSCConnect Smart Controller. The ECR2 motor offers a step function in EC Motor performance with lower noise and increased efficiency for supermarket and bottle cooler customers. ECR2's smart control features allow power consumption to be further reduced by tuning airflow to the exact needs of the system.



'Get Connected' - The SCSCConnect platform will improve customers' total refrigeration system cost by simplifying maintenance, improving energy consumption and providing connectivity capability. With Bluetooth Smart® capability, SCSCConnect controllers can connect to Wellington's SCSCConnect System suite of cooler fleet management software that allows customers to more effectively monitor and manage their coolers in the field. The SCSCConnect also features iBeacon® capability for instore marketing. Unlike off-the-shelf iBeacons, SCSCConnect controllers have no batteries to run down, will not go missing, and can interact with the consumer via the cooler itself.



Our People

Wellington is being rebuilt around the strength of its team. Our people work hard to develop compelling products, support customers' supply chain needs and reduce costs. Their dedication to ensuring the business continually improves its performance and ultimately delivers a positive return for shareholders is what drives them.

Chris Tucker – Senior Engineering Team Leader

"I work within Wellington's product innovation team which is based in Auckland, New Zealand. This team develops products that customers tell Wellington they need. Over the last few years our business has changed to be more customer centric and a lot of time is spent understanding how to add features and capabilities to products that solve customer 'real life' problems. Our team has designed the new ECR2 motor to be highly energy efficient and very quiet, and we believe supermarket customers will appreciate the positive impact that it will have on their coolers and in their supermarkets and retail stores."



Gerardo Gonzalez – VP & GM, Intelligent Systems Business Unit

"I am based in Atlanta, USA and am proud to lead the Smart Controller business for Wellington, taking to our customers solutions that improve their cooler fleet management, equipment performance, identify customer behaviours and increase sales. It is exciting that our SCSCConnect product is in-market trials with major global beverage brands which is allowing Wellington to optimise the solution for this new market. Wellington believes there is potential to diversify beyond bottle coolers and deploy SCSCConnect type smart control solutions into supermarket display cases, refrigerated transportation and medical refrigeration."



Geoff Black – Software Team Leader

"I am the team leader for software development, based in Auckland, New Zealand. The team innovates to find new ways for our Smart Controllers to communicate with mobile devices and the Cloud, using Bluetooth Low Energy and other connectivity technologies, and we can't wait to see the positive impact that we know this will provide for customers. We specialise in developing the electronics and control software for Wellington's ECR motors. These controls allow motors to be configured to suit the specific needs of each customer's refrigeration systems to maximise performance and energy efficiency. We are a multi-skilled team with electronic engineers, firmware developers, product test engineers and app developers all working together to create compelling solutions."



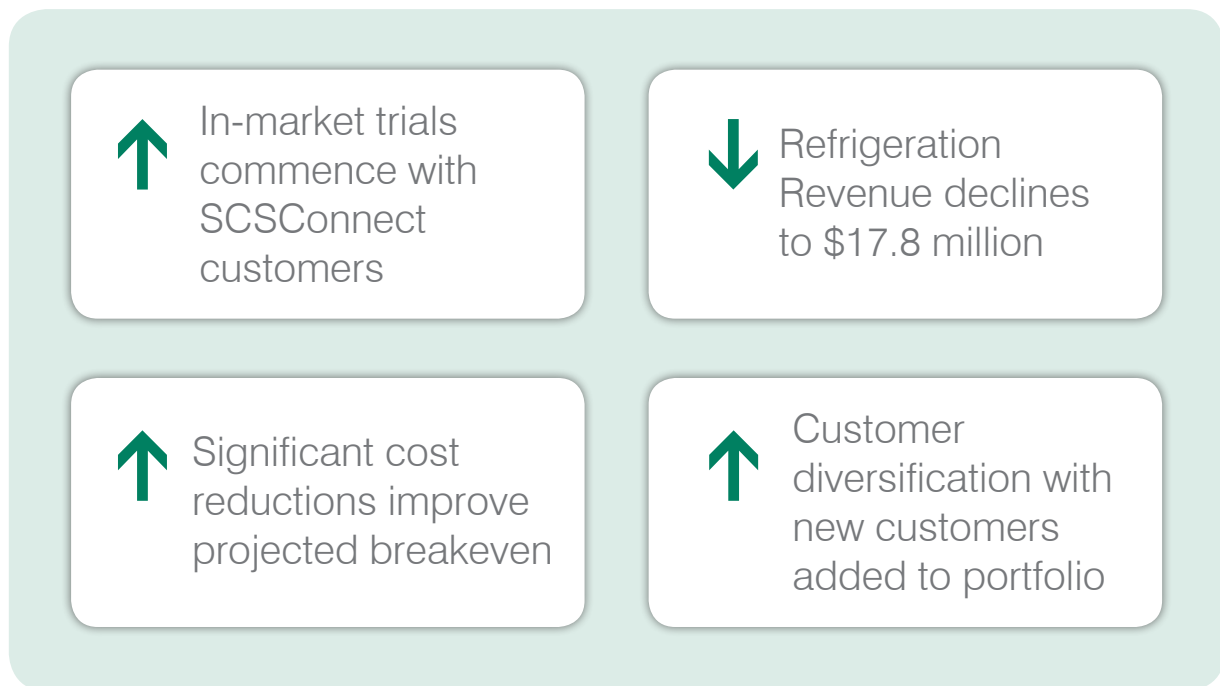
Delivery Network

Since 2004 Wellington has delivered over 5 million motors to customers across 26 countries. Wellington's global network supports its customers in the development of their product needs, supply chain delivery requirements and new technology roadmaps. Customer-focused teams are located in New Zealand, Mexico, Brazil, China, Singapore, Turkey, Italy and the USA, working around the clock to ensure that Wellington 'delivers' for customers.

With its supply chain partner factories in Vietnam, China, Indonesia and Malaysia and regional distribution partners, Wellington has the global reach to ensure that customers receive personal attention with a high quality product range that is manufactured and delivered on time.



2014 Business Highlights



Commercial refrigeration revenue declines from \$25.4 million in 2013 to \$17.8 million, as a result of Latin American demand.

Supply chain and operating cost reduction significantly reduces revenue required for projected breakeven.

SCSCConnect in-market trials started with global beverage companies and cooler manufacturers.

Customer acquisition success with over 15 new customers added to the portfolio, with the majority in the APAC region.

Report of the Chairman and Chief Executive Officer

2014 in Review

The 2014 financial year was a period of continued focus on improving the fundamentals of the business, including supply chain costs and manufacturing capability, product costs, operating cost structure, new customer and new product pipelines.

Financial performance in 2014 was disappointing, primarily as a result of large reductions seen in customer demand from the Latin American market. Wellington did not allow the impact of a weaker end-market to de-focus it from developing new products, developing new customer relationships and ensuring the Company diversified its customer base.

Revenue for 2014 was \$17.8 million with gross margin (note 2) of 18%.

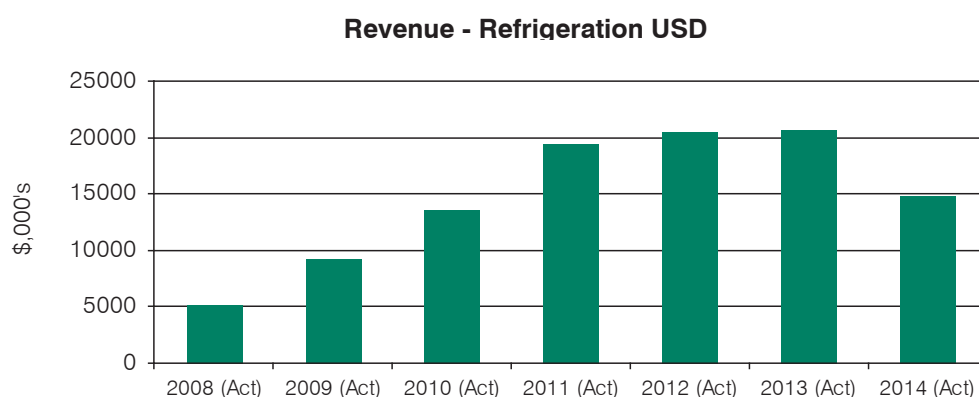
Earnings before Interest, Tax, Depreciation, Amortisation and Impairment (EBITDA note 1) resulted in a loss of NZ\$4.0 million compared to losses of NZ\$2.9 million in 2013 and NZ\$4.1 million in 2012. The Comprehensive Loss for the year was \$4.4 million compared to \$4.0 million in 2013. Despite this result, the team was encouraged by the cost and margin performance and ability to mitigate losses impacted by the \$7.6 million decline in refrigeration revenue.



Revenue Performance

In USD terms, revenue in 2014 was \$US14.6 million compared with \$US22.5 million recorded in 2013. This decrease is attributable to discontinuance of the ventilation product in 2013 and aforementioned weakness in Latin American demand.

The chart below shows the annual trend for commercial refrigeration revenue:

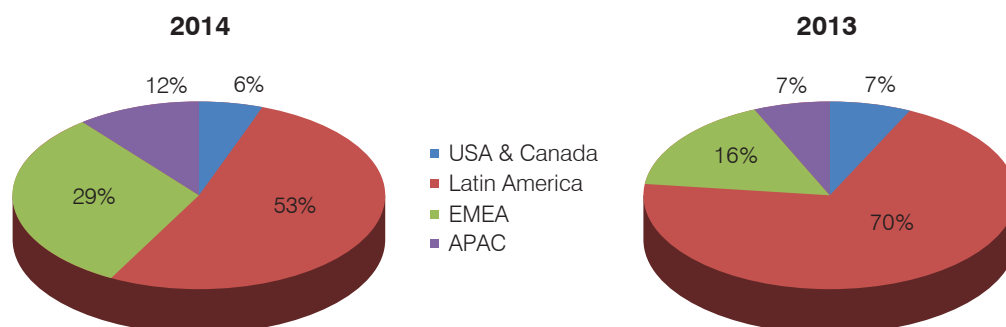


Revenues in Latin America decreased 46% due to lower market demand from several customers. These demand declines were not a result of losing specific customer relationships; rather they were caused by market driven issues such as the overall declines in carbonated soft drink (CSD) volumes, the Mexico sugar tax temporarily depressing CSD volumes in that country and Argentina's foreign currency restrictions stopping import of motors to that country. Wellington also saw increased competitive pressure, particularly in its Mexican and Columbian markets resulting in some loss of share. These market share losses have already been recovered as the company enters 2015.

Europe, Middle East and Africa (EMEA) region revenue increased 27% as a result of improved volume from major customers, including a new supermarket manufacturer. Wellington saw increasing interest from European customers for its new ECR2 motor and expects that this new motor will allow Wellington to develop further new customer relationships in 2015.

Asia Pacific (APAC) revenues also increased 27% due to additional volume in Thailand, Taiwan and Australia particularly. Wellington's non-EC AMV shaded pole motor business grew modestly, with its largest AMV customer taking a greater number of units than in the previous year. Wellington is seeing increased interest for this product in Asia and is exploring a number of new growth opportunities. Thailand remains Wellington's largest APAC market where it recently won a new EC Motor programme with a supermarket cooler manufacturer.

Geographical Sales %



In 2014 Wellington commenced new sales distribution partnerships in the USA and South China and appointed sales agents in Australia, United Kingdom and South Africa. The distribution partners are focusing on new customer targets for existing motor products and are also actively involved in marketing the ECR2 motor to major supermarket manufacturers. These partnerships did not contribute material sales to the business in 2014 as they were just commencing product sampling and marketing programmes. Wellington expects that over the next twelve to eighteen months these new partners will contribute to its strategic goal of customer and revenue diversification.

Gross Profit Performance

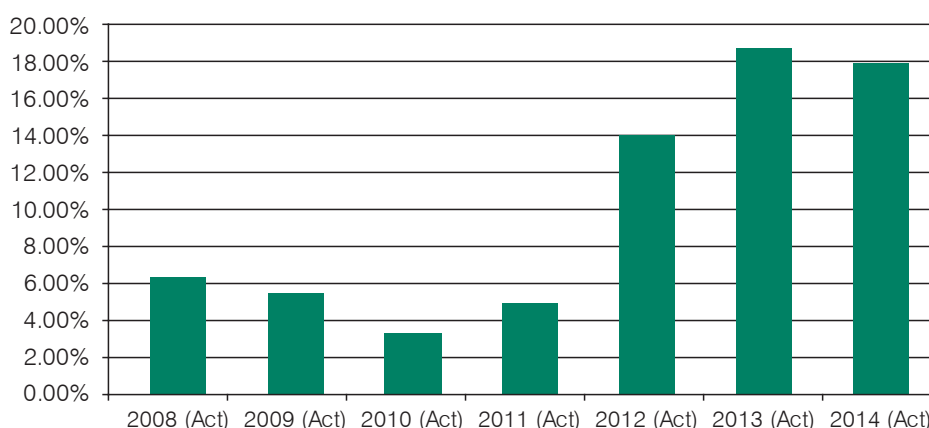
2014 was the year that Wellington successfully completed a major transformation of its supply chain capability with the aim to lower costs, improve execution performance and bring on board suppliers who could add value to the Wellington business beyond manufacturing.

The transformation had four parts:

1. In March 2014, the rationalisation of supply chain capability was completed, resulting in the closure of the Singapore supply chain office. This delivered operating cost savings of \$0.6 million annually. The supply chain is now managed from New Zealand with the support of its international supplier partners.
2. The transition to East West as a new motor manufacturer, based in Vietnam, was successfully completed in August 2014 with no cost over-runs or customer delivery issues. This was a major achievement for the Company and a credit to the team. East West supplied the first motors in August and by December 31 2014 110,000 motors had been delivered. The East West partnership has expanded to include a North America sales distribution agreement.
3. In June 2014 Wellington completed the transition of motor electronics manufacturing from its China based supplier to a new lower cost Singaporean supplier, with factories in Indonesia and Malaysia. This transition was completed seamlessly without any disruption to customer supply.
4. Wellington worked with its long-standing China based motor manufacturing partner Matchwell, to improve production processes and supply chain efficiency. In 2014 Matchwell supplied the majority of the EC Motors purchased by Wellington. The two companies are exploring other possibilities for collaboration such as joint motor design and regional sales support.

Gross margin for 2014 was 18.0%, as compared to 18.7% in 2013 and 14% in 2012. 2014 was impacted by lower than expected refrigeration volumes, which delayed the realisation of contracted cost reductions from East West and did not allow Wellington to negotiate volume discounts from other partners. With the increased volume and further supplier cost reductions expected in 2015, Wellington expects to achieve its gross margin target of 25%.

Gross Profit %



The Gross Profit recorded for 2014 was \$3.2 million. This is after recognising warranty costs amounting to \$0.2 million, which is a \$0.3 million increase compared to 2013. In 2014 a former ventilation customer notified the Company of a commercial claim in respect of a discontinued ventilation motor supplied in 2010 and 2011. Wellington's legal advice is that there is no liability in this matter.

Operating Expenses

Operating expenses for 2014 were \$8.4 million, a reduction of \$1.0 million compared to 2013. This is attributable to the closure of the Singapore office, improvements in operating process efficiencies, reducing or removing overhead costs not directly associated with new product innovation or adding value for customers, and constraining discretionary spend.

In particular, during 2014 Wellington:

- Completed the transfer of supplier management activities from Singapore to New Zealand and closed the Singapore supply chain office, which resulted in headcount savings and process efficiencies.
- Moved from the Omega Street facility to a lower cost new Customer Innovation Centre in Arrenway Drive, Auckland.
- Increased the time spent by the New Zealand innovation team on new product development and commercialisation activities.

Balance Sheet Adjustments

Wellington closed the 2014 financial year with assets of \$15.1 million, including inventory of \$4.7 million and a cash balance of \$1.2 million. Liabilities were \$5.6 million (exclusive of borrowings which mandatorily convert into ordinary shares).

There were a number of one-time balance sheet adjustments made in the 2014 result;

- Patent impairment: the Company was granted a certain patent in New Zealand and Mexico but in the course of extending coverage to other regions, "prior art" was uncovered in Germany. This prior art means that the asset was impaired and accordingly a \$55,000 non-cash charge was recognised.
- VAT impairment: The Company has historically carried VAT assets in the Turkish and Italian subsidiaries. These assets are recoverable from VAT returns on domestic business and at current forecast volumes in those countries the assessment is that it will take several years to recover in cash. As a result, the asset was considered impaired which resulted in a \$339,000 charge.

There were no other significant write-offs or provisions. This demonstrates the improvement made in materials management, patent management, quality improvement and overall balance sheet risk management.

2014 Capital Programme

In May 2014 the Company raised \$4.7 million (net of expenses) by way of an issue of convertible preference shares. The board and management are grateful to Wellington's shareholders supporting the Company's improvement plans with this new capital. The Company had expected this capital to be adequate for its needs through the 2015 year but, as a result of the revenue declines, this was not achievable.

The preference share issue mandatorily converts into ordinary shares in May 2017. Because the number of ordinary shares that preference shareholders will receive on the conversion date is not fixed, the shares are required to be classified as borrowings. Accounting standards require the borrowing to be measured at amortised cost. In 2014, the amortised cost of borrowing was \$376,000 (2013: \$nil). The preference shares also have an embedded option, allowing preference shareholders to benefit if the share price of the ordinary shares is above \$0.25 at the conversion date. Accounting standards require the option to be recognised at fair value. A gain of \$581,000 has been recognised in the 2014 result in respect of the change in fair value (2013: \$nil).

Working Capital

Wellington closed the year with a \$1.2 million cash balance (2013: \$3.0 million).

Cash flows from the preference shares issue in 2014 were used for new product development and for the purchase of plant and equipment (\$2.2 million) and to fund the operating cash outflows (\$4.4 million).

Inventory increased from \$4.0 million to \$4.7 million as a result of strategic inventory built to manage the inherent risk of a major supply chain transformation, poor forecast visibility from customers and slower than planned consumption due to the Latin American demand issues. As Wellington enters 2015 these higher than expected inventory levels are reducing, with an unaudited inventory balance at the end of February 2015 of \$3.5 million. The improved inventory management operating processes implemented in 2012 remain in operation and along with the now completed East West supply chain transition should ensure inventory is managed efficiently.



Turnaround Plan

Wellington's vision to move 'beyond the motor' and diversify the company away from sole reliance on the bottle cooler market continues to drive execution focus. Despite the setbacks in 2014, management continued to focus on five main strategic priorities, intended to progress the turnaround of the business and ultimately deliver improved financial performance. Significant progress was made in all areas.

2014 - Five Main Priorities - Outcome

1. Establish sales partnerships to access growth opportunities in new markets

Wellington started working with five distributors and sales agencies in the USA, South China, United Kingdom, South Africa and Australia. Initial sales were made through these companies in 2014 as the relationships were commencing and marketing campaigns began. Wellington expects that these relationships will be important to its future revenue diversification and geographical expansion.

2. Revenue diversification through increased business with supermarket display case manufacturers

Wellington's 4-watt ECR01 motor and integrated fan-pack (developed at the end of 2013) helped to increase sales to its main supermarket customer in 2014. Due to delays in the ECR2 development business growth in this sector wasn't as expected, however Wellington continued to develop customer relationships in the segment and established positive feedback for its ECR2 product, giving a high level of confidence on future sales.

3. Complete and launch the next generation ECR2 motor by the end of 2014

Design completion of the ECR2 in 2014 was delayed by approximately 6 months. This was primarily as a result of a bias towards reducing overheads rather than increasing engineering capacity and also to the additional time needed to resolve unplanned technical challenges to ensure the products met customers' needs. As of February 2015, the ECR2 design had been completed and the product is entering the manufacturing stage, with sales expected in the second half of 2015.

4. Complete a Smart Controller in-market trial with a major customer by end of 2014

Wellington commenced in-market trials with four major customers in the fourth quarter of 2014, which was more trials than planned. These trials have provided valuable feedback that has allowed further enhancement of the performance of the product as Wellington prepares to start sales in the second half of 2015. There remains a higher demand for trials than able to be supported.

5. Complete the East West supplier transition and enable lower manufacturing cost point

This objective was successfully completed with all the required products qualified, shipments commencing in the third quarter 2014 and no customer service issues. Due to the lower demand from Latin America, insufficient volumes were achieved to realise the agreed pricing benefits from East West. Wellington expects this pricing to be achieved by third quarter 2015, dependant on customer volumes.



Wellington's 2015 Priorities

As a result of the revenue declines and worsening losses in 2014, the board and management took a hard look at the Company's turnaround and growth strategy. It was determined that the strategy of improving the core EC motor business through a lower cost supply chain, diversifying revenues with a broader product roadmap and developing a new Smart Controller business remained the best way to expand margins and deliver profitable growth.

The Company's sales focus remains unchanged from 2014. It is designed to consolidate and grow existing bottle cooler revenues and diversify revenue streams into new markets. The sales initiatives are:

- Selling existing products to bottle cooler customers in current and new geographies
- Selling existing products to display case customers in the supermarket segment
- Selling existing products to new non-bottle cooler and non-supermarket segments
- Selling ECR2 and SCSCConnect products to bottle cooler and supermarket segments
- Developing retail brand sponsorship and bottle cooler customers for the SCSCConnect solution

The strategic priorities for 2015 are consistent with the strategic path set in 2012 and the 2014 priorities. These priorities are intended to put in place all the fundamentals needed to achieve growth and profitability.

2015 – Five Main Priorities

1. Expanding geographical reach and customer diversification through sales distribution partnerships

The new distributors that were added in 2014 are expected to win new customers and contribute to revenue growth in 2015. Wellington is also exploring distribution possibilities in other new markets where there is an identified need for Wellington EC Motor and Smart Controller products.

2. Developing new customer relationships and growing revenues in the supermarket segment

Wellington expects to expand revenues with its existing supermarket customers as a result of the ECR2 launch. Reference customers will be important as the Company expands its presence in this segment of the market and expects to win further customers due to the success of the ECR2 motor.

3. Launching the new ECR2 motor, targeted at supermarket display case customers

In January Wellington shipped samples of the ECR2 motor to selected bottler cooler and supermarket refrigeration equipment manufacturers and received positive feedback. The ECR2 product is expected to enter manufacturing pilot build in May 2015, and commence shipping to customers in Q3 2015. Some of these shipments will be to support large-scale in-market testing as a precursor to volume rollouts.

4. Launching the SCSCConnect fleet management solution, the company's first Smart Controller product

The SCSCConnect will exit trial phase with some customers in Q2 2015 and initial shipments to customers are expected to commence in Q3 or Q4 2015. These initial shipments could take the form of larger trials as customers develop and validate new operating systems to integrate the features that the SCSCConnect offers. In 2015 Wellington will start to expand its SCSCConnect sales campaigns beyond bottle coolers to supermarket display cases.



5. Delivering a lower cost, higher capability supply chain with East West and other strategic suppliers

As customer volumes are expected to improve through the first half of 2015 Wellington expects that the contracted East West volume pricing will be realised in Q3 2015. This new cost point, along with improved costs from other strategic suppliers, will allow the company to achieve its expected target of 25% gross margins and above.

2015 Outlook

At the beginning of 2015, Wellington is seeing a modest improvement in market demand from its Latin American customer base, particularly in Mexico, although it remains cautious given it is early in the buying season. Wellington believes it has been successful in regaining some of the market share lost in 2014 and is seeing early signs that beverage brands are ordering more than last year.

Wellington expects only a modest revenue contribution from new products in 2015 as their release is planned for later in the year. The Company also anticipates small, but strategically meaningful revenue contribution from its new market entry strategies, including new distributors and new sales campaigns within new geographies such as the UK and China. Manufacturing costs should continue to reduce and operating costs will continue to be managed tightly.

As a result, revenues and gross margins are expected to be somewhat higher than in 2014 with a considerably lower EBITDA loss and a breakeven result possible, dependant on the level of recovery in the market issues experienced in 2014 and the expected adoption rate of new products.



Capital Plan

On March 1 2015, the Company announced it would raise \$3.2 million of additional capital by way of a fully underwritten pro-rata rights issue of ordinary shares to all eligible shareholders. This new capital is to ensure it successfully launches its new products and successfully executes on its profit and growth recovery plans.

The key features of the offer include:

- Raising \$3 million, before issue expenses, through a 5:6 rights issue of 105,310,930 new shares at 3 cents per new share
- The offer is expected to close on May 1 2015 with new shares allotted May 7 2015.
- The offer is renounceable
- The offer is fully underwritten by SuperLife Limited, a major shareholder in the Company

Wellington expects to be able to mail the offer document to shareholders on April 14 2015.

In the event that SuperLife is required to increase its shareholding above 20% and pursuant to the underwriting commitment from SuperLife, the Company will seek shareholder approval at the Annual Shareholder Meeting in May 2015.

Governance

The Board is committed to ensuring that the Company has the right skills in the governance and management team to ensure successful execution of its turnaround strategy. 2014 saw the appointment of one new director to the board, Mr John McMahon. Mr McMahon is a shareholder of the Company with the required experience and knowledge to support the team and help ensure the Company's success. 2014 saw the retirement of Mr Simon Mander, whose ten years of service to the business has been greatly appreciated.

The board and management would like to thank shareholders for their support and patience as the team works towards its strategic goals. Wellington is confident that the strategy and actions underway will deliver on its promise of profitable growth.



Tony Nowell
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. EBITDA is calculated as the loss before interest and taxation of \$4.509 million (2013 - \$3.748 million loss), less depreciation and amortisation of \$0.447 million (2013 - \$0.518 million) and less impairment of non-current assets of \$0.055 million (2013 - \$0.318 million). These numbers have been extracted from our 31 December 2014 Financial Statements.

Note 2: Gross margin is the gross profit percentage calculated from GAAP measures of revenue and gross profit.

Directors



Tony Nowell - Chairman

Mr Nowell was appointed a director of Wellington in March 2010 and Chairman in December 2010. He is an experienced company leader in major New Zealand and international businesses and also Chairs Scion (the Forest

Research Institute of New Zealand) and New Zealand Food Innovation (Auckland). He is Deputy Chair of Leadership New Zealand, a board member of Food Standards Australia New Zealand, a New Zealand representative on the APEC Business Advisory Council, a member of the Export Advisory Board of Business New Zealand and was formerly Chief Executive of Zespri International, and Griffin's Foods Limited. Prior to returning to New Zealand business in 2000 from an extended period of international business experience, Mr Nowell was Regional Vice President of Sara Lee Asia, President Director of Sara Lee Indonesia and President Director of L'Oreal Indonesia.



Mr Shawn Beck

Mr Beck is a previous Executive Director of Pencarrow Private Equity Ltd, having been a founding director in 1993. Over the last 20 years, he has served on 15 boards in a wide range of industries, including specialty manufacturing, retail,

road transport, aviation transport, media, engineering consulting and food. He has been a director of Wellington since 1994.



Dr Lisbeth Jacobs

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 also completed the Executive General Management programme at CEDEP-INSEAD, France. At present Dr Jacobs is General Manager International at UniServices, a wholly owned subsidiary of The University of Auckland. In this role Dr Jacobs is

responsible for all commercial activities that the University of Auckland undertakes outside of New Zealand and Australia and she manages a team of about 100 staff. Before taking up her current role Dr Jacobs was Director Strategy & Development at The Icehouse, following a 13 year career with Belgian corporate Bekaert, a world market and technology leader in steel wire and steel cord products and applications. She is also a member of the Return of Science Physical Sciences Investment Committee and a member of the steering committee of the ArcAngels, a NZ-based angel investment organisation focused on investing in early stage businesses that are led or managed by women across New Zealand. Dr Jacobs is Honorary Consul of Belgium since August 2013.



Mr Gottfried Pausch

Mr. Pausch currently serves as an independent director of McKay Ltd in Whangarei, Blackhawk Tracking Systems Ltd in Auckland and as Chairman of Aucom Electronics Ltd in Christchurch. Mr Pausch was the former CEO at Actronic

Technologies and an Executive in Residence at The Icehouse, following a 22 year career with German engineering and electronics conglomerate Siemens, one of the world's leading suppliers of a wide range of products, solutions and services in the field of technology, which included the roles of CEO Siemens Energy Services Ltd. and Managing Director of Siemens New Zealand.



Mr John McMahon

Mr McMahon has over twenty years' experience in the Australasian equity markets, predominantly as an equity analyst covering a range of industries including telecommunications, media, gaming transport and industrials. He

was a former Head of Research and Head of Equities for ABN AMRO NZ and was Managing Director of ASB Securities for three years. John now manages his own investment portfolio through Sydney-based Auro Investment Management and is Chairman of NZAX-listed Solution Dynamics Ltd (SDL). He has a Bachelor of Commerce (Honours), an MBA and is a CFA (Chartered Financial Analyst) charterholder.

Senior Management



Greg Allen – Chief Executive Officer

Mr Allen was appointed CEO of Wellington Drive in November 2011. Prior to joining Wellington Mr Allen spent 23 years working internationally leading business development, supply chain and manufacturing organisations in Europe, North America and Asia. He is an experienced operational and business leader, having most recently been responsible for the Industrial and Green Technology business unit for Celestica, a highly regarded multinational supply chain services provider. Prior to Celestica Mr Allen led a Canadian public company focused on VOIP products and also held senior roles with global contract manufacturing and engineering services companies. Originally from New Zealand, and with a technical background gained from six years in the New Zealand armed forces, Mr Allen brings to Wellington a 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 August 2008 with initial responsibility for investor relations, capital market activities, and all aspects of corporate strategy. On 2 April 2009, Mr Hodgson was appointed Vice President Corporate Services (this title was changed to Chief Financial Officer in 2010), with responsibility for supporting the Chief Executive Officer and the Board in developing and executing strategic plans, leading the corporate services team (finance, IT, legal, and human resource functions), and managing investor relations and funding programmes. In July 2013 Mr Hodgson was appointed Senior Vice President Commercial, to lead the Company's sales and business activities. Prior to joining Wellington, Mr Hodgson worked in equities research for 20 years and most recently was the Head of Research for Macquarie Securities in New Zealand from 2003 to 2008. He holds a BMS (Hons) from Waikato University with majors in accounting and economics.



David Howell – Chief Technical Officer

Mr Howell joined Wellington as Engineering Manager in 1999 and is currently responsible for all aspects of Wellington's future technology roadmap and the company's product development processes in his role as Chief Technology Officer. He has previously worked in new product development roles for Rover Group (UK), Fisher and Paykel Healthcare Corporation Ltd, and Tru-Test Ltd. David is a chartered (CPEng & IntPE) mechanical engineer, holds a BE (Hons) and DipBus from The University of Auckland and an MSc from Cranfield (UK), and is currently working towards a PhD in product development management. Mr Howell is listed as inventor on 12 families of international patent applications, including several of Wellington's core patents.



Howard Milliner – Chief Financial Officer

Howard Milliner joined Wellington in November 2012. He holds a BCom from Auckland University and is a Chartered Accountant. He was previously CFO of a N.Z. listed engineering business for 14 years and was the CEO and CFO of that company for 7 of those years.



Ali Karahasanoglu – Sales Director, Europe, Middle East and Africa

Mr Karahasanoglu has received his BS degree in Electrical Engineering on power electronics division and studied Pre-MBA at Temple University, USA. He had worked several industries; IT, heating, refrigeration, home appliances as Project Development Engineer, Service Engineer, Regional Sales Manager and Sales & Marketing Manager. Since joining Wellington in 2002 he has served in different functions within the organisation – distribution, business development, Turkey/Eurasia subsidiary company setup and management (since 2006), refrigeration business unit management and recently he has been Sales director of Europe, Middle East and Africa region since 2008.



Erick Layseca – Business Development Director, Latin America

Mr Layseca graduated as an Industrial and Systems Engineer. He was a shareholder in a Dairy Consulting Company, in which he actively participated and gained extensive experience in business development. He then moved on to the world's fifth largest bottle cooler manufacturers, where he was in charge of the areas of Supplier Development and International Commerce. He has been working at Wellington, as a Business Development Director of Latin America since 2006.



Clayton Thomas – Sales and Marketing Director, Asia Pacific

Mr Thomas was appointed to direct our key initiatives, in collaboration with customers, to drive Wellington's long term growth and sustainability in APAC. Prior to joining Wellington, he worked with beverage dispensing technologies and sustainable energy solutions for the Food and Beverage and Marine industries. Mr Thomas has lived in China since 2007.



Gerardo Gonzalez – Vice President and General Manager, Intelligent Systems Business Unit

Mr. Gonzalez joined Wellington in February 2013 as Vice President and General Manager of Intelligent Solutions Business. He will be responsible for the business development and general management of the new Electronic Controls Business Unit. In addition, he has been appointed as the executive accountable for the company's relationship with The Coca-Cola Company. Mr. Gonzalez has global business development and strategic planning experience in the Carbonated Soft Drink and Beer Industry. Mr. Gonzalez resides in Atlanta, Georgia, and holds a BS in Economics from Monterrey Institute of Technology, and an MBA from Emory University.

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:

| | 2014 | 2013 |
|--------------------------------|------------------------------|------------------------|
| Mr T. Nowell | \$50,000 | \$50,000 |
| Mr S. R. Beck | \$29,833 | \$28,000 |
| Dr L. Jacobs | \$29,833 | ^{1.} \$16,872 |
| Mr G. Pausch ^{2.} | \$30,000 | ^{1.} \$1,151 |
| Mr J. McMahon ^{3.} | ^{2.} \$5,178 | \$ - |
| Mr S. J. Mander ^{4.} | \$29,833 | \$28,000 |
| Dr R. J. Thomson ^{4.} | \$ - | \$28,000 |
| Dr R. Boven ^{4.} | \$ - | \$11,667 |

Notes

1. Mr J. McMahon was appointed a director during 2014 year. Dr Jacobs and Mr Pausch were appointed directors during the 2013 year. They earned a pro-rated amount of fees from the date of their respective appointments to 31 December.

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. Mr Mander and Dr Thomson retired as directors in 2014. Dr Boven resigned as a director in 2013. They earned a pro-rated amount of fees to their respective dates of retirement or resignation.

Interested Transactions

The Directors have disclosed the following transactions with the Company:

- Interested Transactions – There have been no transactions during the year with interested or related parties.
- 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 2014 was \$48,787 (2013 - \$45,382).
- Directors' Share Transactions – In May 2014 interests associated with Tony Nowell were issued 17,750 convertible preference shares pursuant to the prospectus registered in April 2014. Interests associated with John McMahon held 2,055,285 ordinary shares and 911,057 preference shares when he was appointed a director in October 2014. Details of numbers of shares held by directors are shown below.
- Directors' Loans - There were no loans by the Company to Directors.
- Key Management Share Transactions – During the year key management: were issued 272,596 ordinary shares in lieu of remuneration otherwise payable; were issued 117,693 convertible preference shares pursuant to the prospectus registered in April 2014; purchased 1,353 ordinary shares; were issued 2,992,469 part paid shares; were issued 384,863 US share options; and 96,215 part paid shares lapsed. At year end, key management held: 2,647,883 ordinary shares; held 117,693 convertible preference shares; held 6,686,913 part paid shares; and held 673,510 US share options. Further details of part paid shares and options can be found in Note 24. Senior staff (or key management) is listed in the Directory on page 66.

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.

Directors' Shareholding

| Ordinary shares | 31 December 2014 | | 31 December 2013 | |
|-------------------------------|-------------------------|--------|-------------------------|--------|
| | Total Relevant Interest | Direct | Total Relevant Interest | Direct |
| Mr T. Nowell | 88,750 | - | 88,750 | - |
| Mr S. R. Beck | 377,495 | - | 377,495 | - |
| Mr J. McMahon | 2,055,285 | - | n/a | n/a |
| Convertible preference shares | | | | |
| Mr T. Nowell | 17,750 | - | - | - |
| Mr J. McMahon | 911,057 | - | n/a | n/a |

Notes: Details of the movements in the shareholdings of directors are provided above under Interested Transactions. Mr McMahon was appointed a director in October 2014. His 31 December 2013 balances are shown above as "n/a" he was not a director of the Company at that time.

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 | | PARENT COMPANY | |
|-----------------------|----------|------|----------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| \$100,000 - \$109,999 | 7 | 4 | 7 | 4 |
| \$110,000 - \$119,999 | - | 1 | - | - |
| \$120,000 - \$129,999 | 2 | 1 | 2 | 1 |
| \$130,000 - \$139,999 | 1 | - | 1 | - |
| \$150,000 - \$159,999 | 1 | 3 | 1 | 3 |
| \$160,000 - \$169,999 | - | 1 | - | 1 |
| \$180,000 - \$189,999 | - | 1 | - | 1 |
| \$190,000 - \$199,999 | 3 | - | 2 | - |
| \$200,000 - \$209,999 | 1 | - | 1 | - |
| \$210,000 - \$219,999 | 1 | - | - | - |
| \$220,000 - \$229,999 | - | 1 | - | - |
| \$250,000 - \$259,999 | - | 1 | - | 1 |
| \$260,000 - \$269,999 | 1 | - | 1 | - |
| \$270,000 - \$279,999 | 1 | - | - | - |
| \$460,000 - \$469,999 | - | 1 | - | 1 |
| \$490,000 - \$499,999 | 1 | - | 1 | - |

NZX Waivers

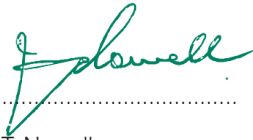
In accordance with NZ Stock Exchange Listing Rule 10.5.3(f), the following waivers were granted by the NZ Exchange during the year ended 31 December 2014:

- Waiver dated 10 March 2014 from NZX Main Board Listing Rule 9.2.1: This enabled Wellington to proceed with its Rights Offer to existing shareholders without prior shareholder approval, as the support arrangements to the Offer, together with the Rights Offer itself, constituted a material transaction in which related parties would participate.
- Waiver dated 20 May 2014 from NZX Main Board Listing Rule 5.2.3: This enabled quotation of Wellington's convertible preference shares on the NZX Main Board as the required spread of Members of the Public holding shares in a class of security had not been met. The waiver is for a period of 12 months from 20 May 2014. A copy of the waiver can be found on the WDT website at: http://www.wdtl.com/Investor_history.php

Independent Auditors

In accordance with Section 200 of the Companies' Act 1993, the auditor, PricewaterhouseCoopers, continue in office.

For and on behalf of the Board

A handwritten signature in blue ink, appearing to read "T. Nowell", written over a dotted line.

T. Nowell

Chairman

27 March 2015

Shareholder Information

Shareholders

As at 31 December 2014 there were 2,436 shareholders holding 126,373,117 fully paid ordinary shares and 234 shareholders holding 25,211,740 convertible preference shares.

Share Issues

In May 2014 the Company issued 11,089,519 convertible preference shares in accordance with its Simplified Disclosure Prospectus (Offer) dated 9 April 2014 at an issue price of 20 cents each. This issue raised \$2.22 million before costs.

In June 2014 the Company issued 14,122,221 convertible preference shares (with shareholder approval given at the Annual Shareholder Meeting on 16 June 2014) at 20 cents each, to the underwriter of the Convertible Preference share Offer. This issue raised \$2.82 million before costs.

The convertible preference shares convert to ordinary shares on 19 May 2017. Full details of the conversion ratio are in the Offer document. In summary, if the market share price in May 2017 used for the conversion is more than 24 cents, an investor will be entitled to receive one new ordinary share upon the conversion of one convertible preference share. If however the market ordinary share price is 24 cents or less, then a formula will apply which will result in an additional number of ordinary shares being issued to each investor upon conversion at no additional cost. For example, if the ordinary share price was 10 cents (in May 2017), an investor would be entitled, upon conversion, to receive 2.5 ordinary shares for each convertible preference share. The formula is intended to deliver a theoretical total value of 25 cents worth of ordinary shares for each preference share converted.

In June 2014 the Company issued 314,414 ordinary shares to staff at 11 cents each, in accordance with the remuneration policy of the Company and Listing Rule 7.3.6. This issue raised \$34,585.

Further details of these share issues can be found in note 24 on page 59.

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 registers at 20 March 2015:

| 20 largest shareholders | | Ordinary Shares | Convertible Preference Shares |
|-------------------------|---|-----------------|-------------------------------|
| 1. | N.Z. Central Securities Depository Ltd ¹ | 38,396,173 | 2,802,104 |
| 2. | SuperLife Trustee Nominees Ltd | 22,272,307 | 13,931,123 |
| 3. | East West Manufacturing LLC | 10,600,000 | - |
| 4. | Investment Custodial Services Ltd | 5,376,378 | 1,781 |
| 5. | Wairahi Trust | 2,400,000 | - |
| 6. | Gurkha Trust | 2,378,302 | - |
| 7. | SuperLife Trustee Nominees Ltd (Gemino Account) | 2,085,000 | 4,609,559 |
| 8. | ASB Nominees Ltd | 2,055,285 | 30,000 |
| 9. | Waikiwi Trust | 1,644,889 | - |
| 10. | Flynn No 2 Trustees Ltd | 1,274,291 | - |
| 11. | FNZ Custodians Ltd | 1,247,333 | 140,815 |
| 12. | Graham Trustees Ltd | 1,214,556 | 244,911 |
| 13. | R.D. Armstrong | 1,083,007 | - |
| 14. | Jangada Trust | 995,913 | - |
| 15. | Tane Nui Family Trust | 900,000 | - |
| 16. | Diab Investment NZ Ltd | 755,215 | - |
| 17. | K.F. Bennett | 738,341 | 150,000 |

| | | | |
|-----|-------------------------|---------|---------|
| 18. | I. Douglas Family Trust | 545,725 | 219,145 |
| 19. | M.J. Springford | 500,000 | - |
| 20. | B.A. Paradine | 475,908 | 95,182 |

Note 1. N.Z. Central Deposit Securities Depository Limited hold shares on trust for 11 different shareholders. The largest of these are: JPMorgan Chase Bank NA – 18,369,237 shares; N.Z. Permanent Trustees Ltd – 5,974,850 shares; TEA Custodians Ltd – 5,400,508 shares; Accident Compensation Corporation – 5,329,962 shares; and BNP Paribas Nominees (N.Z.) Ltd – 1,606,363 and 1,013,089 shares.

Note 2. Holdings of convertible preference shares are not ranked largest to smallest.

Distribution of Equity Securities

| Size of Holdings (at 20 March 2015) | | | Shareholders | | Fully Paid Ordinary Shares | |
|-------------------------------------|---|-----------|--------------|--------|----------------------------|--------|
| | | | Number | % | Number | % |
| 1 | - | 999 | 1,099 | 44.37 | 384,747 | 0.30 |
| 1,000 | - | 1,999 | 260 | 10.50 | 348,392 | 0.28 |
| 2,000 | - | 4,999 | 366 | 14.78 | 1,127,102 | 0.89 |
| 5,000 | - | 9,999 | 238 | 9.61 | 1,634,002 | 1.29 |
| 10,000 | - | 49,999 | 357 | 14.41 | 7,759,454 | 6.14 |
| 50,000 | - | 99,999 | 74 | 2.99 | 4,903,252 | 3.88 |
| 100,000 | - | 499,999 | 64 | 2.58 | 13,733,453 | 10.87 |
| 500,000 | - | 999,999 | 6 | 0.24 | 4,435,194 | 3.51 |
| over | | 1,000,000 | 13 | 0.52 | 92,047,521 | 72.84 |
| | | | 2,477 | 100.00 | 126,373,117 | 100.00 |

2,349 (or 94.8%) shareholders, holding 113,604,930 shares (or 89.9%) reside in New Zealand.

Substantial Security Holders

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

| Name | Number of shares [#] | Date of Notice |
|---------------------------------------|-------------------------------|----------------|
| SuperLife Trustee Nominees Ltd | 25,016,694 | 08 Dec 2014 |
| Hunter Hall Investment Management Ltd | 17,102,344 | 19 Sep 2013 |
| East West Manufacturing LLC | **10,600,000 | 17 Sep 2013 |
| Harbour Asset Management Ltd | 7,408,280 | 08 Oct 2012 |

[#] 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.

** East West Manufacturing LLC hold share warrants allowing them to subscribe for 5,300,000 further shares.

Shareholder Enquires

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the Directory on page 66. 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 <http://www.wdtl.com> normally the day after they are released.

Corporate Governance

The Board of Wellington Drive Technologies Limited is committed to acting with integrity and expects high standards of behaviour and accountability from all its officers and staff.

Role of the Board

The Board's primary objective is the enhancement of shareholder value by following appropriate strategies, and ensuring effective and innovative use of available Company resources. The Board is responsible for the management, supervision, and direction of the Group. Day-to-day management of the Group is delegated to the Chief Executive.

Compliance

The governance principles adopted by the Board are designed to meet best practice recommendations for listed companies to the extent that it is appropriate to the size and nature of Wellington's operations. The Board endorses the overall principles embodied in the N.Z. Stock Exchange Corporate Governance Best Practice Code. In a number of respects the Company's practice differs from this Code. In particular, the Company has not established a nomination committee, believing these matters are being properly dealt with at the full Board level.

Board Meetings

The Board normally meets nine to eleven times each year for scheduled meetings. Additional meetings are held where specific matters require attention between scheduled meetings. Board meetings are used to monitor, challenge, develop, and fully understand business and operational issues.

Composition of the Board

The Constitution provides that there will be not less than three and not more than eight directors. N.Z. Stock Exchange requirements are that at least two directors or one-third, are independent directors. The Board has five directors, all of whom are independent. Profiles of Directors are given on Page 14.

Criteria for Board Membership

When a vacancy arises, the Board identifies candidates with a mix of capabilities and perspectives considered necessary for the Board to carry out its responsibilities effectively. A director appointed by the Board must stand for election at the next Annual Meeting. At each Annual Meeting one-third of directors must retire by rotation. Retiring directors are eligible for re-election.

Non-executive Directors' Remuneration

The fees payable to non-executive directors are determined by the Board within the aggregate amount approved by shareholders. The Board considers the advice of independent remuneration consultants when setting remuneration levels. The current directors' fee pool limit is \$200,000 which was approved by the shareholders at the 14 November 2006 annual meeting of shareholders.

Details of the remuneration paid to directors are disclosed on Page 17 in the Annual Report.

Board Committees

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

Audit Committee

The Audit Committee operates under a charter approved by the Board and is accountable to the Board for: the business's relationship with, and the independence of, the external auditor; the reliability and appropriateness of the disclosure of the financial statements and external financial communication.

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, all of whom are independent.

The current members are Shawn Beck (Chairman), Tony Nowell and John McMahon.

Risk Committee

The Risk Committee operates under a charter approved by the Board and is accountable to the Board for the maintenance of an effective business risk management framework including credit, liquidity, market, insurance, operational, regulatory and reputational risks.

The current members are Shawn Beck (Chairman), Tony Nowell and Gottfried Pausch.

Executive Appointment and Remuneration Committee

The Executive Appointment and Remuneration Committee operates under a charter approved by the Board and is accountable to the Board for 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 obtains independent advice on the appropriateness of the remuneration packages.

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

Technology & Innovation Committee

The Technology & Innovation Committee operates under a charter approved by the Board and is accountable to the Board for overseeing and providing counsel on overall strategy, direction and effectiveness of technology and innovation activities.

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

Trading in shares

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

Wellington has a detailed insider trading policy applying to all directors and employees. No director or employee may use confidential unpublished 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 unpublished price-sensitive information) is strictly prohibited.

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

Relationship with the Independent Auditor

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 remain independent of the Company at all times 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 be in conflict with the preservation of the independence of the auditor subject to the approval of the Audit Committee; and

The Audit Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor.

Diversity Disclosure

In accordance with Listing Rule 10.5.5(j) the Company makes the following diversity disclosures:

| 31 December 2014 | Male | Female | Total |
|------------------|------|--------|-------|
| All directors | 4 | 1 | 5 |
| | 80% | 20% | 100% |
| Officers | 10 | - | 10 |
| | 100% | - | 100% |
| 31 December 2013 | | | |
| All directors | 4 | 1 | 5 |
| | 80% | 20% | 100% |
| Officers | 10 | - | 10 |
| | 100% | - | 100% |

Officers (or key management personnel) comprise the directors, the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO. For the purposes of the above table, directors are disclosed separately to officers. The Company does not currently have a formal diversity policy.



Independent Auditors' Report

to the shareholders of Wellington Drive Technologies Limited

Report on the Financial Statements

We have audited the financial statements of Wellington Drive Technologies Limited ("the Company") on pages 27 to 65, which comprise the statements of financial position as at 31 December 2014, the statements of comprehensive income and statements of movements in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at year end date or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Other than in our capacities as auditors, tax advisors and providers of other assurance services we have no relationship with, or interests in, Wellington Drive Technologies Limited or any of its subsidiaries. These matters have not impaired our independence as auditors of the Company and Group.



Independent Auditors' Report

Wellington Drive Technologies Limited

Opinion

In our opinion, the financial statements on pages 27 to 65:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 31 December 2014, and their financial performance and cash flows for the year then ended.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 (a) to the financial statements which describes the basis on which the Directors have adopted the going concern assumption.

The financial statements have been prepared on a going concern basis which is dependent on the ability of the Group to achieve forecasted cash flows, the outcome of which is inherently uncertain, and additional shareholder or alternative funding may be required to enable the Group to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern, and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include adjustments that would result if the Group was unable to continue as a going concern.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in black ink.

Chartered Accountants
27 February 2015

Auckland

Statements of Comprehensive Income

for the year ended 31 December 2014

| | Note | CONSOLIDATED | | PARENT COMPANY | |
|---|------|------------------|----------------|----------------|----------------|
| | | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Revenue | 7 | 17,805 | 27,437 | 16,458 | 23,070 |
| Cost of sales | | (14,609) | (22,306) | (15,242) | (22,376) |
| Gross profit | | 3,196 | 5,131 | 1,216 | 694 |
| Other income | 8 | 710 | 511 | 3,965 | 679 |
| Operating expenses | 9 | (8,415) | (9,390) | (7,645) | (8,126) |
| Loss before interest & taxation | | (4,509) | (3,748) | (2,464) | (6,753) |
| Finance income | 10 | 594 | 9 | 592 | 9 |
| Finance expenses | 10 | (559) | (24) | (559) | (20) |
| Loss before income tax | | (4,474) | (3,763) | (2,431) | (6,764) |
| Income tax expense | 11 | - | (5) | - | - |
| Loss for the year | | (4,474) | (3,768) | (2,431) | (6,764) |
| Other comprehensive income: | | | | | |
| <i>Items that may be reclassified subsequently to the profit or loss:</i> | | | | | |
| Exchange differences on translating operations | 26 | 78 | (270) | 298 | 34 |
| Cash flow hedge | 26 | (35) | 33 | (35) | 33 |
| Income tax relating to other comprehensive income | | - | - | - | - |
| Other comprehensive income / (loss) for the year | | 43 | (237) | 263 | 67 |
| Total comprehensive loss for the year | | (\$4,431) | (\$4,005) | (\$2,168) | (\$6,697) |
| Loss for the year attributable to the Owners of the Company | | (\$4,474) | (\$3,768) | (\$2,431) | (\$6,764) |
| Total comprehensive loss attributable to the Owners of the Company | | (\$4,431) | (\$4,005) | (\$2,168) | (\$6,697) |
| Basic earnings per share – cents | 30 | (3.18) | (3.49) | | |
| Diluted earnings per share – cents | 30 | (3.18) | (3.49) | | |

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

Statements of Movements in Equity

for the year ended 31 December 2014

| CONSOLIDATED 2014 | Note | Share capital \$000s | Accumulated losses \$000s | Other reserves \$000s | Total equity \$000s |
|---|--------|----------------------------|---------------------------------|-----------------------------|---------------------------|
| Balance at beginning of year | | 114,308 | (102,520) | (2,428) | 9,360 |
| Comprehensive Income | | | | | |
| Loss for year | | - | (4,474) | - | (4,474) |
| Other comprehensive income | | | | | |
| Exchange differences on translating operations | 26b | - | - | 78 | 78 |
| Cash flow hedge | 26c | - | - | (35) | (35) |
| Income tax relating to other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - | (4,474) | 43 | (4,431) |
| Share option compensation expensed | 26a | - | - | 49 | 49 |
| Contributions of equity | 24 | - | - | - | - |
| Refunds of lapsed part paid shares | 25,26a | - | - | - | - |
| Balance at end of year | | \$114,308 | (\$106,994) | (\$2,336) | \$4,978 |

| CONSOLIDATED 2013 | Note | Share capital \$000s | Accumulated losses \$000s | Other reserves \$000s | Total equity \$000s |
|---|--------|----------------------------|---------------------------------|-----------------------------|---------------------------|
| Balance at beginning of year | | 108,544 | (99,004) | (2,054) | 7,486 |
| Comprehensive Income | | | | | |
| Loss for year | | - | (3,768) | - | (3,768) |
| Other comprehensive income | | | | | |
| Exchange differences on translating operations | 26b | - | - | (270) | (270) |
| Cash flow hedge | 26c | - | - | 33 | 33 |
| Income tax relating to other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - | (3,768) | (237) | (4,005) |
| Share option compensation expensed | 26a | - | - | 115 | 115 |
| Contributions of equity | 24 | 5,764 | - | - | 5,764 |
| Refunds of lapsed part paid shares | 25,26a | - | 252 | (252) | - |
| Balance at end of year | | \$114,308 | (\$102,520) | (\$2,428) | \$9,360 |

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

Statements of Movements in Equity (continued)

for the year ended 31 December 2014

| PARENT COMPANY 2014 | Note | Share capital \$000s | Accumulated losses \$000s | Other reserves \$000s | Total equity \$000s |
|---|--------|----------------------------|---------------------------------|-----------------------------|---------------------------|
| Balance at beginning of year | | 114,308 | (105,532) | (2,257) | 6,519 |
| Comprehensive Income | | | | | |
| Loss for year | | - | (2,431) | - | (2,431) |
| Other comprehensive income | | | | | |
| Exchange differences on translating operations | 26b | - | - | 298 | 298 |
| Cash flow hedge | 26c | - | - | (35) | (35) |
| Income tax relating to other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - | (2,431) | 263 | (2,168) |
| Share option compensation expensed | 26a | - | - | 49 | 49 |
| Contributions of equity | 24 | - | - | - | - |
| Refunds of lapsed part paid shares | 25,26a | - | - | - | - |
| Balance at end of year | | \$114,308 | (\$107,963) | (\$1,945) | \$4,400 |

| PARENT COMPANY 2013 | Note | Share capital \$000s | Accumulated losses \$000s | Other reserves \$000s | Total equity \$000s |
|---|--------|----------------------------|---------------------------------|-----------------------------|---------------------------|
| Balance at beginning of year | | 108,544 | (99,020) | (2,187) | 7,337 |
| Comprehensive Income | | | | | |
| Loss for year | | - | (6,764) | - | (6,764) |
| Other comprehensive income | | | | | |
| Exchange differences on translating operations | 26b | - | - | 34 | 34 |
| Cash flow hedge | 26c | - | - | 33 | 33 |
| Income tax relating to other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - | (6,764) | 67 | (6,697) |
| Share option compensation expensed | 26a | - | - | 115 | 115 |
| Contributions of equity | 24 | 5,764 | - | - | 5,764 |
| Refunds of lapsed part paid shares | 25,26a | - | 252 | (252) | - |
| Balance at end of year | | \$114,308 | (\$105,532) | (\$2,257) | \$6,519 |

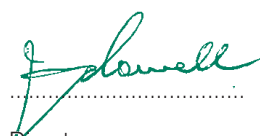
The above Statements of Movements in Equity should be read in conjunction with the accompanying notes.

Statements of Financial Position

as at 31 December 2014

| | | CONSOLIDATED | | PARENT COMPANY | |
|----------------------------------|------|------------------|----------------|----------------|----------------|
| | Note | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Current Assets | | | | | |
| Cash and cash equivalents | 13 | 1,196 | 2,984 | 789 | 2,498 |
| Trade and other receivables | 14 | 5,310 | 7,892 | 2,098 | 2,693 |
| Derivative financial instruments | 22 | - | 31 | - | 31 |
| Inventories | 15 | 4,674 | 3,975 | 1,683 | 1,903 |
| Total current assets | | 11,180 | 14,882 | 4,570 | 7,125 |
| Non-Current Assets | | | | | |
| Plant and equipment | 16 | 880 | 425 | 868 | 397 |
| Intangible assets | 17 | 3,031 | 1,566 | 3,022 | 1,553 |
| Advances to subsidiaries | 29 | - | - | 5,357 | 4,612 |
| Investment in subsidiaries | 18 | - | - | 95 | 81 |
| Total non-current assets | | 3,911 | 1,991 | 9,342 | 6,643 |
| Total assets | | 15,091 | 16,873 | 13,912 | 13,768 |
| Current Liabilities | | | | | |
| Trade and other payables | 19 | 5,333 | 7,032 | 4,732 | 6,892 |
| Provisions | 20 | 259 | 481 | 259 | 357 |
| Derivative financial instruments | 22 | 4 | - | 4 | - |
| Total current liabilities | | 5,596 | 7,513 | 4,995 | 7,249 |
| Non-Current Liabilities | | | | | |
| Borrowings | 21 | 4,507 | - | 4,507 | - |
| Derivative financial instruments | 22 | 10 | - | 10 | - |
| Total non-current liabilities | | 4,517 | - | 4,517 | - |
| Total liabilities | | 10,113 | 7,513 | 9,512 | 7,249 |
| Net assets | | \$4,978 | \$9,360 | \$4,400 | \$6,519 |
| Equity | | | | | |
| Contributed equity | 24 | 114,308 | 114,308 | 114,308 | 114,308 |
| Accumulated losses | 25 | (106,994) | (102,520) | (107,963) | (105,532) |
| Other reserves | 26 | (2,336) | (2,428) | (1,945) | (2,257) |
| Total equity | | \$4,978 | \$9,360 | \$4,400 | \$6,519 |

For and on behalf of the Board



Director
27 February 2015



Director
27 February 2015

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

Cash Flow Statements

for the year ended 31 December 2014

| | | CONSOLIDATED | | PARENT COMPANY | |
|---|------|----------------|----------------|----------------|----------------|
| | Note | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Cash flows from operating activities | | | | | |
| Receipts from customers exclusive of GST/VAT | | 19,972 | 28,050 | 66 | 509 |
| Receipts from Group Companies | | - | - | 17,083 | 26,558 |
| Payments to suppliers and employees exclusive of GST/VAT | | (24,567) | (31,392) | (20,332) | (28,007) |
| Payments to Group Companies | | - | - | (1,255) | (1,123) |
| Interest paid | | (141) | (24) | (141) | (20) |
| Interest received | | 39 | 9 | 37 | 9 |
| Taxation paid | | - | (8) | - | - |
| Net GST/VAT received | | 271 | 929 | 258 | 264 |
| Net cash outflow from operating activities | 31 | (4,426) | (2,436) | (4,284) | (1,810) |
| Cash flows from investing activities | | | | | |
| Payments for plant and equipment | 16 | (678) | (102) | (647) | (80) |
| Payments for intangible assets | 17 | (1,604) | (994) | (1,604) | (980) |
| Proceeds from sale of plant and equipment | | 100 | 44 | 11 | 4 |
| Investment in subsidiaries | | - | - | - | (19) |
| Net cash outflow from investing activities | | (2,182) | (1,052) | (2,240) | (1,075) |
| Cash flows from financing activities | | | | | |
| Cash proceeds from ordinary and preference share issues, net of issue costs | 21 | 4,696 | 5,764 | 4,696 | 5,764 |
| Proceeds from bank finance facilities | | - | 905 | - | 905 |
| Repayments of bank finance facilities | | - | (2,115) | - | (2,115) |
| Finance lease payments | | - | (4) | - | (4) |
| Net cash inflow from financing activities | | 4,696 | 4,550 | 4,696 | 4,550 |
| Net (decrease) / increase in cash and cash equivalents | | (1,912) | 1,062 | (1,828) | 1,665 |
| Cash and cash equivalents at the beginning of the financial period | | 2,984 | 1,869 | 2,498 | 793 |
| Effect of exchange rate movements on cash | | 124 | 53 | 119 | 40 |
| Cash and cash equivalents at end of year | 13 | \$1,196 | \$2,984 | \$789 | \$2,498 |

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

Notes to the Financial Statements

for the year ended 31 December 2014

1. GENERAL INFORMATION

Wellington Drive Technologies Limited (the "Company" or the "Parent") and its subsidiaries (together the "Group") develop, manufacture, market and sell energy saving, electronically commutated (EC) motors and fans for worldwide use. The Company and its subsidiaries are profit oriented entities.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 21 Arrenway Drive, Rosedale, Auckland 0632, New Zealand.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 February 2015. The entity's owners do not have the power to amend these financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

(a) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply fully with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit oriented entities. These financial statements comply with International Financial Reporting Standards (IFRS).

Entities reporting

The financial statements include separate financial statements for Wellington Drive Technologies Limited as a separate legal entity and the consolidated entity consisting of the Company and its subsidiaries.

Statutory base

The Company is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Going concern assumption

The Group reported a loss of \$4,431,000 (2013: \$4,005,000) and operating cash outflows of \$4,426,000 (2013: \$2,436,000) for the year ended 31 December 2014.

These financial statements have been prepared using the going concern assumption.

The directors have reviewed cash flow projections of the Group which are based on a number of assumptions including:

- Customer pricing and terms - Forecasting sales, revenue growth, pricing and terms is inherently uncertain. Major customers routinely seek to renegotiate and there is no certainty that volume, price and terms assumptions in the Company's projections will be sustained.
- Achievement of forecast sales volumes - Projections include assumptions as to revenue, i.e. existing volumes with existing customers, additional volume with existing customers, additional volume from new customers and markets, and revenue from the commercialisation of new products. Whether or not the Group will be successful in achieving forecast revenue is uncertain.
- Continued investment in new product development, in resources to enter new markets and in resources within existing markets to enable the Group to achieve growth.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The directors intend to raise \$2.6 million, net of issue costs, to fund this expenditure. This will be through additional capital by way of a fully underwritten rights issue. An underwriting commitment has been obtained from a Substantial Security Holder. This commitment is subject to shareholders' approval to allow the underwriter to increase its shareholding above 20% in the event that other shareholders do not take up their rights entitlement.

If the shareholders do not approve the underwriting arrangements resulting in \$2.6 million not being raised, the Company would likely delay its expenditure on new product development and market expansion.

The directors acknowledge that there are material uncertainties within the forecast assumptions. In the event additional capital is not raised and there being material variations from the assumptions adopted in the cash flow forecasts, the minimum cash facilities available to the Group over the forecast period may be inadequate to continue to operate as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2014 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

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 has the ability to 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 purchase 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 given 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 Statements 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 consolidated and parent financial statements are presented in New Zealand dollars, rounded to the nearest thousand, which is the Group's presentation currency.

2. Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

The Board believes US Dollars is the primary economic environment that the Parent operates in. The presentation currency for the Group and the Parent remains New Zealand dollars due to the Group'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 Statements 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 Statements of Financial Position;
- income and expenses for each Statements 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) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, duties and Goods and Services Tax.

(i) Sale of Goods and Services

Revenue from the sale of goods and disposal of other assets is recognised when the Group has passed control of the goods or other assets to the buyer. Revenue from the provision of services is recognised when services are delivered to the buyer.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(iii) Royalties

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(iv) Grants

Grants are recognised within 'Other Income' in the Statements of Comprehensive Income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Grants relating to costs are deferred and recognised in the Statements of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

2. Summary of significant accounting policies (continued)

(e) 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.

(f) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 22.

Movements on the hedging reserve in shareholders' equity are shown in note 26. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Statements of Comprehensive Income within other income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward exchange hedging contracts is recognised in the Statements of Comprehensive Income within 'revenue'. The gain or loss relating to the ineffective portion is recognised in the Statements of Comprehensive Income within 'other income'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

2. Summary of significant accounting policies (continued)

(f) Derivative financial instruments and hedging activities (continued)

The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statements of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statements of Comprehensive Income within 'other income'.

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

The Statements of Comprehensive Income have been prepared so that all components are stated exclusive of GST and VAT. All items in the Statements of Financial Position are stated net of GST and VAT, with the exception of receivables and payables, which include GST and VAT invoiced.

(h) Leases

The Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statements of Comprehensive Income on a straight line basis over the period of the lease.

Leases in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the finance balance outstanding. The asset acquired under a finance lease is depreciated over the shorter of the asset's useful life and the lease term

(i) Impairment 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).

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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. Bank finance facilities drawn down, are shown within current liabilities in the Statements of Financial Position.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement no more than 120 days from the date of recognition.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, indicating that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

2. Summary of significant accounting policies (continued)

(k) Trade receivables (continued)

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statements of Comprehensive Income within 'operating expenses'.

When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequently recoveries of amounts previously written off are credited against Operating expenses in the Statements of Comprehensive Income.

(l) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of 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.

(m) Investments and other financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the Statements of Financial Position. Loans and receivables are carried at amortised cost using the effective interest method.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

(n) Plant and equipment

All plant and equipment is stated at historical cost less depreciation and impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project and an appropriate portion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Subsequent 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 Statements of Comprehensive Income during the financial year in which they are incurred.

Depreciation on 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 |
| Office equipment, furniture and fittings | 3 - 15 years |

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statements of Comprehensive Income.

2. Summary of significant accounting policies (continued)

(o) Intangible assets

(i) 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 Statements 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 for the production of 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. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the Statements 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 5 years.

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.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of 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 developing or maintaining computer software programmes are recognised as an expense as incurred.

(p) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the Group prior to balance sheet date. The amounts are unsecured and are usually paid within 45 days of recognition.

(q) Investments in subsidiaries

Investments in subsidiaries are stated at cost less impairment.

(r) Provisions

Provisions for legal claims, warranties and restructuring costs are recognised when: the Group has a present legal or constructive obligation as a result of past events; it 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Borrowings

Borrowings and bank finance facilities are initially recognised at fair value, net of transaction costs incurred.

Borrowings including bank finance facilities are subsequently measured at amortised cost. Any difference between the proceeds (plus transaction costs) and the redemption amount is recognised in the Statements of

2. Summary of significant accounting policies (continued)

(s) Borrowings (continued)

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 the balance sheet date.

(t) Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred unless they are directly attributable to the acquisition or construction of an asset, in which case they are capitalised.

(u) Employee benefits

(i) Wages and salaries, annual leave and sick leave

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.

(ii) Share based payments

Equity settled, share based compensation is provided to employees via the Wellington Partly Paid Share Scheme and Wellington Employees Share Option Plan. The fair value of the employee services received in exchange for the grant of partly paid shares or options are recognised as an expense over the vesting period. Fair value is assessed at the date that the partly paid shares are granted using a binomial option pricing model that takes into account the grant or exercise price, the two or three year vesting term of the partly paid shares or options, the exercise criteria, the likelihood of staff turnover, the non-tradable nature of the partly paid shares or options, the share price at grant date and the volatility of the returns on the underlying share and risk-free interest rate for the term. 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.

(iii) Bonus plans

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.

(v) 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.

(w) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance sheet date.

(x) Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the chief operating decision maker. 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.

(y) Standards, amendments and interpretations affecting the financial statements

New standards, amendments and interpretations adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014.

Amendment to NZ IAS 32, 'Financial Instruments: Presentation' on offsetting financial assets and financial

2. Summary of significant accounting policies (continued)

(y) Standards, amendments and interpretations affecting the financial statements (continued)

liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

Amendments to NZ IAS 36 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGU's which have been included in NZ IAS 36 by the issue of NZ IFRS 13.

Amendment to NZ IAS 39 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under NZ IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not have a significant effect on the Group financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the Group financial statements, except for the following set out below:

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through the profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value on other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk on other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and the hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess NZ IFRS 9's full impact.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of NZ IFRS 15.

There are no other NZ IFRS's or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. FINANCIAL RISK MANAGEMENT

Due to the broad range of the Group's activities, there is exposure to a variety of financial risks:

- Market risk (including currency risk and interest rate risk);
- Credit risk; and
- Liquidity risk

The Group's risk management programme focuses on minimising the potential adverse effects of these risks. The Group's business is primarily denominated in foreign currencies. The Group holds New Zealand dollars and other currencies to settle transactions in the normal course of business.

(a) Market risk

Foreign Currency Risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures. Presently the majority of the Group's revenue is derived from USD contracts. The majority of the Group's product, manufacturing and logistics costs are settled in USD. This provides a strong natural hedge position between revenues and costs. USD funds are also converted to NZD to meet operational costs. Though the NZD remains the main currency for corporate funding, engineering costs and Group reporting, it will continue to diminish as a proportion of total Group costs as product sales outstrip growth in the engineering cost base. The Group actively monitors its foreign exchange exposures and may use forward exchange contracts to reduce the currency risks associated with these purchases.

The below tables show the impact on pre-tax loss for the year, if the major currencies that the Company transacts in weaken/strengthen by 10% to the USD, with other variables held constant. The impact would mainly result in foreign exchange gains or losses on the conversion of cash, receivables and payables. The same movement on equity would be expected. 10% was chosen as a reasonable sensitivity given the historically volatile markets for foreign exchange

| 2014 NZ\$000s | CONSOLIDATED | | | PARENT COMPANY | | |
|-------------------------|---------------------------------|------------------------------|------------------------------|---------------------------------|------------------------------|------------------------------|
| | Carrying Amount at 31 Dec | NZD + 10% Profit / Equity | NZD - 10% Profit / Equity | Carrying Amount at 31 Dec | NZD + 10% Profit / Equity | NZD - 10% Profit / Equity |
| NZD cash | 610 | 61 | (61) | 610 | 61 | (61) |
| NZD accounts receivable | 4 | - | - | 4 | - | - |
| NZD accounts payable | (358) | (36) | 36 | (358) | (36) | 36 |
| Total NZD | | \$25 | (\$25) | | \$25 | (\$25) |
| SGD cash | 25 | 2 | (2) | 3 | - | - |
| SGD accounts payable | (4) | - | - | (2) | - | - |
| Total SGD | | \$2 | (\$2) | | \$- | \$- |
| EUR cash | 12 | 1 | (1) | 9 | 1 | (1) |
| EUR accounts receivable | 38 | 4 | (4) | 24 | 2 | (2) |
| EUR accounts payable | (175) | (17) | 17 | (171) | (17) | 17 |
| Total EUR | | (\$12) | \$12 | | (\$14) | \$14 |
| TRY cash | 6 | 1 | (1) | - | - | - |
| TRY accounts receivable | 30 | 3 | (3) | - | - | - |
| Total TRY | | \$4 | (\$4) | | \$- | \$- |
| MXN cash | 35 | 4 | (4) | - | - | - |
| MXN accounts receivable | 1 | - | - | - | - | - |
| MXN accounts payable | (17) | (2) | 2 | - | - | - |
| | | \$2 | (\$2) | | \$- | \$- |

3. Financial Risk Management (continued)

(a) Market risk (continued)

| 2013 NZ\$000s | CONSOLIDATED | | | PARENT COMPANY | | |
|-------------------------|---------------------------------|------------------------------|------------------------------|---------------------------------|------------------------------|------------------------------|
| | Carrying Amount at 31 Dec | NZD + 10% Profit / Equity | NZD - 10% Profit / Equity | Carrying Amount at 31 Dec | NZD + 10% Profit / Equity | NZD - 10% Profit / Equity |
| NZD cash | 241 | 24 | (24) | 241 | 24 | (24) |
| NZD accounts receivable | 45 | 5 | (5) | 45 | 5 | (5) |
| NZD accounts payable | (375) | (38) | 38 | (375) | (38) | 38 |
| Total NZD | | (\$9) | \$9 | | (\$9) | \$9 |
| SGD cash | 34 | 3 | (3) | - | - | - |
| SGD accounts payable | (13) | (1) | 1 | - | - | - |
| Total SGD | | \$2 | (\$2) | | \$- | \$- |
| EUR cash | 83 | 8 | (8) | 81 | 8 | (8) |
| EUR accounts receivable | 3 | - | - | - | - | - |
| EUR accounts payable | (3) | - | - | - | - | - |
| Total EUR | | \$8 | (\$8) | | \$8 | (\$8) |
| TRY cash | 31 | 3 | (3) | - | - | - |
| TRY accounts receivable | 9 | 1 | (1) | - | - | - |
| Total TRY | | \$4 | (\$4) | | \$- | \$- |

Interest Rate Risk

The Group currently has no central overdraft or debt facility. The Group and Parent had cash deposits in various currencies at balance sheet date as follows:

| CONSOLIDATED \$000s | 2014 | | 2013 | |
|------------------------|-------------------|-------------------|-------------------|-------------------|
| | Local Currency | NZD Equivalent | Local Currency | NZD Equivalent |
| NZD | 610 | 610 | 241 | 241 |
| EUR | 7 | 12 | 49 | 83 |
| USD | 398 | 508 | 2,117 | 2,581 |
| SGD | 25 | 25 | 35 | 34 |
| MXN | 405 | 35 | 134 | 13 |
| TRY | 11 | 6 | 55 | 31 |
| Other | - | - | - | 1 |
| Total | | \$1,196 | | \$2,984 |

3. Financial Risk Management (continued)

(a) Market risk (continued)

| PARENT COMPANY \$000s | 2014 | | 2013 | |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
| | Local Currency | NZD Equivalent | Local Currency | NZD Equivalent |
| NZD | 610 | 610 | 241 | 241 |
| EUR | 6 | 9 | 48 | 81 |
| USD | 131 | 167 | 1,784 | 2,175 |
| Other | 3 | 3 | - | 1 |
| Total | | <u>\$789</u> | | <u>\$2,498</u> |

The impact of a 1% increase / decrease in interest rates over a one year period on the closing cash balance would result in an increase / decrease in consolidated pre-tax profit and equity of \$12,000 (December 2013 - \$30,000). 1% was chosen as a reasonable sensitivity given changeable interest rate markets.

(b) Credit Risk

Credit risk is managed on a Group basis. The Group generally trades with customers and banking counterparties who are well established. While there are individually significant customers, the Company and Group take out trade credit insurance in order to provide better security. The Group is also exposed to credit risk relating to component suppliers for which the Group has sold input components for the assembly of its products. Receivables balances are managed by and reported regularly to senior management according to the Company's credit management policies and procedures. The amount outstanding at balance sheet date represents the maximum exposure to credit risk.

The Group enters into foreign exchange derivatives within specified policy limits and only with counter-parties approved by directors.

Cash and cash equivalents of the Company and Group are deposited with a number of trading banks in New Zealand and overseas. \$687,000 is deposited with a major NZ trading bank with a Standard and Poors rating of AA- (2013: \$1,770,000 AA-), \$114,000 (2013: \$92,000) with a major Singapore trading bank and \$100,000 (2013: \$721,000) with Western Union. \$120,000 is deposited with a Turkish bank with a Standard and Poors rating of BB+ (2013: \$146,000 BB+). Of the remaining balance, \$170,000 (2013: \$248,000) is held across a number of 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 Company and Group maintain regular forecasts of liquidity based on expected cash flows. The table below analyses the Company's and 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.

| CONSOLIDATED \$000's | 2014 | | | 2013 | | |
|-----------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|------------------------|
| | 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 | 5,291 | - | - | 7,032 | - | - |
| Coupon on preference shares | 126 | 126 | 378 | - | - | - |
| | <u>\$5,417</u> | <u>\$126</u> | <u>\$378</u> | <u>\$7,032</u> | <u>\$-</u> | <u>\$-</u> |

3. Financial Risk Management (continued)

(c) Liquidity risk (continued)

| PARENT COMPANY \$000's | 2014 | | | 2013 | | |
|-----------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|------------------------|
| | 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 | 4,690 | - | - | 6,892 | - | - |
| Coupon on preference shares | 126 | 126 | 378 | - | - | - |
| | \$4,816 | \$126 | \$378 | \$6,892 | \$- | \$- |

The table below analyses derivative financial instruments that are settled net and all gross settled derivatives into their relevant maturity groupings based on the remaining period at balance date to the contracted maturity date. The amounts disclosed are the contracted undiscounted cash flows.

| CONSOLIDATED & PARENT COMPANY \$000's | Liability carrying amount | Asset carrying amount | Contracted cash flows | Less than 6 months | 6 to 12 months | More than 12 months |
|---|---------------------------------|-----------------------------|--------------------------|-----------------------|-------------------|------------------------|
| 2014 | | | | | | |
| Forward foreign exchange contracts | 4 | - | | | | |
| - Outflow | | | (254) | (254) | - | - |
| - Inflow | | | 250 | 250 | - | - |
| | Liability carrying amount | Asset carrying amount | Contracted cash flows | Less than 6 months | 6 to 12 months | More than 12 months |
| 2013 | | | | | | |
| Forward foreign exchange contracts | - | 31 | | | | |
| - Outflow | | | (969) | (969) | - | - |
| - Inflow | | | 1,000 | 1,000 | - | - |

(d) Capital risk management

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital (refer to note 2(a)).

The Company currently monitors capital on the basis of cash requirements and, in order to maintain or adjust the capital structure, generally issues new shares to investors through rights issues or institutional placements.

The Group and the Company have not been subject to any externally imposed capital requirements during the period.

(e) Fair value estimation

The only financial instruments carried at fair value are derivatives comprising forward foreign exchange contracts and the embedded option.

The forward exchange contract has been classified as Level 2 and the embedded option as Level 3.

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 (ie as prices) or indirectly (ie derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (ie 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 the embedded option is described in more detail in note 22.

4. FINANCIAL INSTRUMENTS BY CATEGORY

| | CONSOLIDATED | | PARENT COMPANY | |
|---|----------------|-----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Assets per Statements of Financial Position | | | | |
| Loans and Receivables | | | | |
| Trade and other receivables | 4,856 | 7,208 | 1,778 | 2,402 |
| Cash and cash equivalents | 1,196 | 2,984 | 789 | 2,498 |
| Advances to subsidiaries | - | - | 5,357 | 4,612 |
| Derivatives used for hedging | | | | |
| Derivative financial instruments | - | 31 | - | 31 |
| | \$6,052 | \$10,223 | \$7,924 | \$9,543 |
| Liabilities per Statements of Financial Position | | | | |
| At amortised cost | | | | |
| Trade and other payables | 5,333 | 7,032 | 4,732 | 6,892 |
| Borrowings | 4,507 | - | 4,507 | - |
| Derivatives used for hedging | | | | |
| Derivative financial instruments | 4 | - | 4 | - |
| At fair value | | | | |
| Embedded option | 10 | - | 10 | - |
| | \$9,854 | \$7,032 | \$9,253 | \$6,892 |

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

Critical accounting estimates, assumptions and judgements

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 discussed below.

(i) Going Concern Assumption

Refer note 2(a) in relation to the adoption of the going concern assumption.

(ii) Development Costs- \$2,257,000 (2013 - \$619,000)

Development costs are capitalised once it can be demonstrated that the asset is supported by future economic benefits (refer note 2(o)). Management is required to consider the following criteria when making its judgement 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.

Developments in progress are assessed for impairment annually in accordance with the accounting policies (refer note 2(ii)) which require estimates of future cash flows.

(iii) Inventory Provisions- \$324,000 (2013 - \$1,080,000)

Inventories are stated at the lower of cost and net realisable value. Management review inventory on a line by line basis. Judgements are made about expected selling prices and obsolescence based on forecast sales.

(iv) Warranty Provision - \$259,000 (2013 - \$286,000)

Provisions for warranties are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The terms of the warranty provide that the Company 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 with respect to similar products. It is expected that the provision will be utilised within one year (refer to note 20).

(v) Receivables and provision for doubtful debts - \$141,000 (2013: \$161,000)

The Group performs ongoing reviews of the bad debt risk within its receivables and makes provisions to reflect its views of the financial condition of its customers and their ability to pay in full for amounts owing for goods provided. This determination requires significant judgement. In making this judgement, the Group evaluates amongst other factors whether there is objective evidence of significant financial difficulty of the customer, whether there has been breach of contract such as default in payment terms, whether it has become probable that the customer will enter into bankruptcy or other financial reorganisation, the disappearance of an active market for that customer because of financial difficulties, and national or local economic conditions that could impact on the customer.

6. SEGMENT INFORMATION

(a) Reportable segments

At 31 December 2014, the Group is organised on a global basis into one operating segment: marketing, selling, manufacturing and developing electric motors and associated electronics and software. The segment result is reflected in the financial statements.

(b) Geographical segments

The Group operates in four main geographical areas, even though it is managed on a global basis. The home country of the Company, and the home of the parent company, is New Zealand. The Group's revenue is generated mainly from the manufacture and supply of electric motors.

| Revenue from external customers by geographic areas | CONSOLIDATED | |
|---|----------------|----------------|
| | 2014 \$000s | 2013 \$000s |
| New Zealand | 42 | 3 |
| Americas | 10,421 | 19,395 |
| Asia/Pacific –other | 2,109 | 1,722 |
| Europe | 5,233 | 6,317 |
| Total | \$17,805 | \$27,437 |

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

| Total non-current assets | CONSOLIDATED | |
|--------------------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s |
| New Zealand | 3,903 | 1,949 |
| Americas | - | 7 |
| Asia/Pacific –other | - | 19 |
| Europe | 8 | 16 |
| Total | \$3,911 | \$1,991 |

Total assets are allocated based on where the owners of the assets are located.

Major Customers

Three major customers (each representing 10% or more of revenues), each account for revenues of \$3,884,000, \$3,373,000 and \$3,334,000 of total revenues (2013: two customers each with revenues of \$10,459,000 and \$4,121,000).

7. REVENUE

| | CONSOLIDATED | | PARENT COMPANY | |
|------------------|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Product revenue | 17,804 | 27,435 | 16,458 | 23,068 |
| Services revenue | 1 | 2 | - | 2 |
| | \$17,805 | \$27,437 | \$16,458 | \$23,070 |

8. OTHER INCOME

| | CONSOLIDATED | | PARENT COMPANY | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Net foreign exchange gains | 482 | 129 | 569 | - |
| Subvention payment received (note 11) | - | - | 3,183 | 281 |
| Licence fees received | 71 | - | 71 | - |
| Other income | 157 | 382 | 142 | 398 |
| | \$710 | \$511 | \$3,965 | \$679 |

Net foreign exchange gains in 2014 include \$355,000 arising from the revaluation of borrowings (note 21).

9. EXPENSES

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Loss before income tax includes the following specific expenses: | | | | |
| Depreciation (note 16) | | | | |
| Plant and equipment | 164 | 148 | 159 | 133 |
| Office equipment, furniture & fittings | 56 | 66 | 48 | 75 |
| | \$220 | \$214 | \$207 | \$208 |
| Employee benefits | | | | |
| Wages and salaries | 5,025 | 4,828 | 3,863 | 3,751 |
| Sick leave | 22 | 28 | 22 | 28 |
| Holiday pay | 219 | 279 | 214 | 267 |
| Employee share options expense | 49 | 115 | 49 | 115 |
| Other short term employee related costs | 320 | 317 | 187 | 185 |
| | \$5,635 | \$5,567 | \$4,335 | \$4,346 |
| Auditor's remuneration | | | | |
| PricewaterhouseCoopers: | | | | |
| -Audit of financial statements of the Group | 90 | 74 | 90 | 74 |
| -Procedures over interim financial statements of the Group | 6 | 11 | 6 | 11 |
| Audit of subsidiaries by other auditors | 8 | 16 | - | - |
| | \$104 | \$101 | \$96 | \$85 |
| Restructuring costs (note 20) | - | 60 | - | 19 |
| Amortisation of intangible assets (note 17) | 227 | 304 | 222 | 293 |
| Impairment of intangible assets (note 17) | 55 | 318 | 55 | 318 |
| Doubtful debts (release) / expense (note 14) | 6 | (146) | 3 | (31) |
| Rental expense relating to operating leases | 471 | 461 | 303 | 421 |
| Loss / (gain) on disposal of plant and equipment | 2 | (3) | (4) | 4 |
| Net foreign exchange losses | - | - | - | 97 |
| Research & development costs expensed | 251 | 287 | 251 | 287 |
| Development time capitalised | (1,153) | (690) | (1,153) | (690) |
| Inventory (recovery) / write downs (note 15) | (109) | (72) | (58) | 395 |
| Impairment of VAT receivable | 339 | - | - | - |
| Impairment release of subsidiary company advances (note 29) | - | - | (4,059) | (876) |
| Impairment charge of investments in subsidiaries (note 29) | - | - | 4,928 | 19 |

10. FINANCE

| | CONSOLIDATED | | PARENT COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Finance income | | | | |
| Change in fair value of embedded option (note 22) | 581 | - | 581 | - |
| Other interest income | 13 | 9 | 11 | 9 |
| | \$594 | \$9 | \$592 | \$9 |
| Finance expenses | | | | |
| Amortisation of borrowing (note 21) | 376 | - | 376 | - |
| Preference shares coupon | 179 | - | 179 | - |
| Other interest income | 4 | 24 | 4 | 20 |
| | \$559 | \$24 | \$559 | \$20 |

11. INCOME TAX EXPENSE

(a) Income tax expense

No taxation is payable as the Company and Group have tax losses available to carry forward and offset against current year taxable income.

(b) Losses for tax purposes

| | CONSOLIDATED | | PARENT COMPANY | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Reported loss for period before tax | (4,474) | (3,763) | (2,431) | (6,764) |
| Non-deductible / non assessable items | (166) | (99) | (2,434) | (997) |
| Less unrecognised timing differences | 259 | (536) | (166) | 393 |
| Net loss for tax purposes | (4,381) | (4,398) | (5,031) | (7,368) |
| Losses carried forward from prior years | (87,786) | (84,453) | (76,999) | (70,646) |
| Adjustment of prior periods | (1,047) | 680 | (902) | 1,015 |
| Expired losses | - | - | - | - |
| Exchange adjustments | (174) | 385 | - | - |
| Losses available to carry forward to future years | (\$93,388) | (\$87,786) | (\$82,932) | (\$76,999) |

Of the total consolidated losses available to carry forward to future years, \$2,746,000 (2013 - \$2,763,000) arises in the U.S.A. and is subject to their continuity requirements. U.S.A. Federal tax losses expire after 15 to 20 years, depending on when those losses were incurred. During the 2014 year no U.S.A. Federal tax losses expired (2013 - None).

(c) Unrecognised deferred tax balances

The Company and Group have 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. The 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. Further details can be found in Note 23.

(d) Subvention payment

The Company received a subvention payment of \$3,183,000 (2013: \$281,000) from a subsidiary company.

12. IMPUTATION CREDITS

The Parent and the Group have no imputation credits available (2013 – \$nil) and no movements occurred in the Imputation Credit Account (2013 – \$nil)

13. CASH AND CASH EQUIVALENTS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Cash on hand and at bank | 755 | 1,040 | 611 | 735 |
| Call deposits | 364 | 1,867 | 101 | 1,686 |
| Short term bank deposits 3 to 12 months | 77 | 77 | 77 | 77 |
| Cash and cash equivalents in cash the Cash Flow Statement | \$1,196 | \$2,984 | \$789 | \$2,498 |

All short term bank deposits can be accessed within 3 months if necessary.

14. TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED | | PARENT COMPANY | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Net trade receivables | | | | |
| Trade receivables - external | 4,965 | 7,272 | 1,254 | 1,630 |
| Trade receivables - subsidiaries | - | - | 574 | 827 |
| Provision for doubtful debts | (141) | (161) | (50) | (55) |
| | 4,824 | 7,111 | 1,778 | 2,402 |
| Prepayments | 283 | 325 | 278 | 253 |
| VAT/GST refunds due | 168 | 356 | 42 | 38 |
| Income tax refund due | 3 | 3 | - | - |
| Other receivables | 32 | 97 | - | - |
| | \$5,310 | \$7,892 | \$2,098 | \$2,693 |

The fair values of trade receivables approximate their carrying amounts. The fair values of receivables from related parties approximate their face value because the receivables are payable on demand and are stated at net realisable value. At balance sheet date, trade receivables of \$1,420,000 were past due but not considered impaired (2013 - \$1,617,000). Of this amount \$168,000 (2013: \$289,000) was 3 months or more overdue.

Individual receivables are assessed as impaired where customers have defaulted on payment terms and management has assessed the likelihood of recovery as remote. A full provision has been made against those individually impaired assets. For receivables that are neither past due nor impaired, management does not foresee any likelihood of default as the receivables are due from long-standing customers.

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Provision for doubtful debts beginning of year | 161 | 329 | 55 | 91 |
| Increase / (decrease) in provision | 6 | (146) | 3 | (31) |
| Bad debts written off | (24) | (9) | (7) | (6) |
| Exchange adjustment | (2) | (13) | (1) | 1 |
| Provision for doubtful debts end of year | \$141 | \$161 | \$50 | \$55 |

The movement in the provision for doubtful debts is recognised within 'Operating expenses' in the Statements of Comprehensive Income.

15. INVENTORIES

| | CONSOLIDATED | | PARENT COMPANY | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Finished goods – at cost | 3,745 | 2,566 | 719 | 360 |
| Work in progress – at cost | 867 | 1,779 | 867 | 1,410 |
| Raw materials – at cost | 386 | 710 | 250 | 452 |
| Less inventory provisions | (324) | (1,080) | (153) | (319) |
| Total inventories | \$4,674 | \$3,975 | \$1,683 | \$1,903 |

Certain inventories are subject to retention of title clauses.

15. Inventories (continued)

| | CONSOLIDATED | | PARENT COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Inventory provision at commencement of year | 1,080 | 1,481 | 319 | 259 |
| Recognised in the Income Statement | | | | |
| - Inventory scrapped | (650) | (275) | (116) | (321) |
| - Reversal of provision | (109) | (72) | (58) | 395 |
| Exchange adjustments | 3 | (54) | 8 | (14) |
| Inventory provision at end of year | \$324 | \$1,080 | \$153 | \$319 |

The reversal of inventory provision is attributable to the recovery of the inventory value as a result of sale and or use in manufacture.

| | CONSOLIDATED | | PARENT COMPANY | |
|--|-----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Cost of inventories recognised as an expense and included in cost of sales | \$13,815 | \$21,384 | \$14,521 | \$21,519 |

16. PLANT AND EQUIPMENT

| | CONSOLIDATED | | | PARENT COMPANY | | |
|--|-------------------|---------------------------------------|----------------|-------------------|---------------------------------------|---------|
| | Plant & equipment | Office equipment furniture & fittings | Total | Plant & equipment | Office equipment furniture & fittings | Total |
| | \$000s | \$000s | \$000s | \$000s | \$000s | \$000s |
| At 31 December 2012 | | | | | | |
| Cost | 4,819 | 2,234 | 7,053 | 3,774 | 1,547 | 5,321 |
| Accumulated depreciation and impairments | (4,208) | (1,889) | (6,097) | (3,267) | (1,383) | (4,650) |
| Exchange adjustment | (177) | (194) | (371) | (101) | (46) | (147) |
| Net book amount | \$434 | \$151 | \$585 | \$406 | \$118 | \$524 |
| Year ended 31 December 2013 | | | | | | |
| Opening net book amount | 434 | 151 | 585 | 406 | 118 | 524 |
| Additions | 56 | 46 | 102 | 44 | 36 | 80 |
| Depreciation | (148) | (66) | (214) | (133) | (75) | (208) |
| Impairments | - | - | - | - | - | - |
| Disposals | (12) | (35) | (47) | - | - | - |
| Exchange adjustment | - | (1) | (1) | 1 | - | 1 |
| Closing net book amount | \$330 | \$95 | \$425 | \$318 | \$79 | \$397 |
| At 31 December 2013 | | | | | | |
| Cost | 4,707 | 2,148 | 6,855 | 3,811 | 1,577 | 5,388 |
| Accumulated depreciation and impairments | (4,200) | (1,858) | (6,058) | (3,393) | (1,452) | (4,845) |
| Exchange adjustment | (177) | (195) | (372) | (100) | (46) | (146) |
| Net book amount | \$330 | \$95 | \$425 | \$318 | \$79 | \$397 |
| Year ended 31 December 2014 | | | | | | |
| Opening net book amount | 330 | 95 | 425 | 318 | 79 | 397 |
| Additions | 537 | 141 | 678 | 537 | 110 | 647 |
| Depreciation | (164) | (56) | (220) | (159) | (48) | (207) |
| Impairments | - | - | - | - | - | - |
| Disposals | (38) | (60) | (98) | (2) | (13) | (15) |
| Exchange adjustment | 36 | 59 | 95 | 6 | 40 | 46 |
| Closing net book amount | \$701 | \$179 | \$880 | \$700 | \$168 | \$868 |
| At 31 December 2014 | | | | | | |
| Cost | 4,812 | 1,660 | 6,472 | 4,321 | 1,277 | 5,598 |
| Accumulated depreciation and impairments | (3,970) | (1,345) | (5,315) | (3,527) | (1,103) | (4,630) |
| Exchange adjustment | (141) | (136) | (277) | (94) | (6) | (100) |
| Net book amount | \$701 | \$179 | \$880 | \$700 | \$168 | \$868 |

17. INTANGIBLE ASSETS

| CONSOLIDATED | Internally Generated Development costs \$000s | Patents \$000s | Software \$000s | Other \$000s | Total \$000s |
|------------------------------------|---|-------------------|--------------------|-----------------|-----------------|
| At 31 December 2012 | | | | | |
| Cost | 4,228 | 1,878 | 393 | 96 | 6,595 |
| Accumulated amortisation | (3,714) | (974) | (333) | (71) | (5,092) |
| Exchange adjustment | (200) | (82) | (10) | (23) | (315) |
| Net book amount | \$314 | \$822 | \$50 | \$2 | \$1,188 |
| Year ended 31 December 2013 | | | | | |
| Opening net book amount | 314 | 822 | 50 | 2 | 1,188 |
| Additions | 766 | 151 | 13 | 64 | 994 |
| Amortisation | (146) | (125) | (30) | (3) | (304) |
| Impairments | - | (318) | - | - | (318) |
| Exchange adjustment | 2 | 5 | (1) | - | 6 |
| Closing net book amount | \$936 | \$535 | \$32 | \$63 | \$1,566 |
| At 31 December 2013 | | | | | |
| Cost | 4,994 | 1,385 | 406 | 160 | 6,945 |
| Accumulated amortisation | (3,860) | (773) | (363) | (74) | (5,070) |
| Exchange adjustment | (198) | (77) | (11) | (23) | (309) |
| Net book amount | \$936 | \$535 | \$32 | \$63 | \$1,566 |
| Year ended 31 December 2014 | | | | | |
| Opening net book amount | 936 | 535 | 32 | 63 | 1,566 |
| Additions | 1,532 | 57 | - | 15 | 1,604 |
| Amortisation | (139) | (65) | (20) | (3) | (227) |
| Impairments | - | (55) | - | - | (55) |
| Exchange adjustment | 113 | 25 | - | 5 | 143 |
| Closing net book amount | \$2,442 | \$497 | \$12 | \$80 | \$3,031 |
| At 31 December 2014 | | | | | |
| Cost | 6,526 | 1,442 | 406 | 175 | 8,549 |
| Accumulated amortisation | (3,999) | (893) | (383) | (77) | (5,352) |
| Exchange adjustment | (85) | (52) | (11) | (18) | (166) |
| Net book amount | \$2,442 | \$497 | \$12 | \$80 | \$3,031 |

17. Intangible Assets (continued)

| PARENT COMPANY | Internally Generated Development costs | Patents | Software | Other | Total |
|------------------------------------|---|---------|----------|--------|---------|
| | \$000s | \$000s | \$000s | \$000s | \$000s |
| At 31 December 2012 | | | | | |
| Cost | 4,228 | 1,878 | 379 | 10 | 6,495 |
| Accumulated amortisation | (3,714) | (974) | (330) | - | (5,018) |
| Exchange adjustment | (200) | (82) | (10) | (8) | (300) |
| Net book amount | \$314 | \$822 | \$39 | \$2 | \$1,177 |
| Year ended 31 December 2013 | | | | | |
| Opening net book amount | 314 | 822 | 39 | 2 | 1,177 |
| Additions | 766 | 151 | 13 | 50 | 980 |
| Amortisation | (146) | (125) | (22) | - | (293) |
| Impairments | - | (318) | - | - | (318) |
| Exchange adjustment | 2 | 5 | - | - | 7 |
| Closing net book amount | \$936 | \$535 | \$30 | \$52 | \$1,553 |
| At 31 December 2013 | | | | | |
| Cost | 4,994 | 1,385 | 392 | 60 | 6,831 |
| Accumulated amortisation | (3,860) | (773) | (352) | - | (4,985) |
| Exchange adjustment | (198) | (77) | (10) | (8) | (293) |
| Net book amount | \$936 | \$535 | \$30 | \$52 | \$1,553 |
| Year ended 31 December 2014 | | | | | |
| Opening net book amount | 936 | 535 | 30 | 52 | 1,553 |
| Additions | 1,532 | 57 | - | 15 | 1,604 |
| Amortisation | (139) | (65) | (18) | - | (222) |
| Impairments | - | (55) | - | - | (55) |
| Exchange adjustment | 113 | 25 | - | 4 | 142 |
| Closing net book amount | \$2,442 | \$497 | \$12 | \$71 | \$3,022 |
| At 31 December 2014 | | | | | |
| Cost | 6,526 | 1,442 | 392 | 75 | 8,435 |
| Accumulated amortisation | (3,999) | (893) | (370) | - | (5,262) |
| Exchange adjustment | (85) | (52) | (10) | (4) | (151) |
| Net book amount | \$2,442 | \$497 | \$12 | \$71 | \$3,022 |

The remaining amortisation period of these intangibles varies between 9 months and 19 years. An impairment assessment of intangible assets is performed annually based on estimated future cash flows.

The Company has been made aware of prior art in respect of one patent which means the patent is impaired. This has resulted in impairment losses of \$55,000 being recognised in the year ended 31 December 2014 for the Parent and Group (2013: \$318,000).

Included within internally generated development costs is \$2,257,000 (2013: \$619,000) under development. This cost is not yet being amortised. An impairment assessment has been performed at 31 December 2014 taking into account costs to complete the developments, costs to set up the manufacturing capability, estimates of market volume and price and estimated manufacturing unit costs.

18. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2b.

| | Country of incorporation | Class of Shares | 2014 | 2013 |
|--|-----------------------------|--------------------|------|------|
| 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 Manufacturing Group 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% |

All subsidiaries have a common balance date of 31 December.

Wellington Mexico Tecnologia SA de CV was incorporated in July 2013.

19. TRADE AND OTHER PAYABLES

| | CONSOLIDATED | | PARENT COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Trade payables | 4,515 | 5,995 | 4,007 | 5,813 |
| Intercompany payables– refer note 29(d) | - | - | - | 182 |
| Related party payables – refer note 29(d) | 283 | 593 | 283 | 593 |
| Accrued expenses | 207 | 205 | 142 | 107 |
| Employee expenses | 328 | 239 | 300 | 197 |
| | \$5,333 | \$7,032 | \$4,732 | \$6,892 |

20. PROVISIONS

| | CONSOLIDATED | | PARENT COMPANY | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Restructuring provisions | - | 195 | - | 71 |
| Warranty provisions | 259 | 286 | 259 | 286 |
| | \$259 | \$481 | \$259 | \$357 |

(a) Restructuring provisions

| | | | | |
|----------------------------------|------------|--------------|------------|-------------|
| Carrying amount at start of year | 195 | 479 | 71 | 270 |
| Additional provisions recognised | - | 143 | - | 19 |
| Amounts used | (191) | (343) | (71) | (219) |
| Unused amounts reversed | - | (83) | - | - |
| Exchange adjustment | (4) | (1) | - | 1 |
| | \$- | \$195 | \$- | \$71 |

Provisions were made to recognise the costs expected to be incurred as a result of restructuring including redundancies, onerous lease costs and onerous supply contracts.

(b) Warranty provisions

| | CONSOLIDATED | | PARENT COMPANY | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Carrying amount at start of year | 286 | 529 | 286 | 529 |
| Additional provisions recognised | 457 | 504 | 457 | 504 |
| Amounts used | (193) | (144) | (193) | (144) |
| Unused amounts reversed | (268) | (607) | (268) | (607) |
| Exchange adjustment | (23) | 4 | (23) | 4 |
| Carrying amount at end of year | \$259 | \$286 | \$259 | \$286 |

The Group sells electric motors with warranty periods of up to three 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.

21. BORROWINGS

On 19 May 2014 the Company issued \$5,042,346 of mandatory convertible preference shares at an issue price of \$0.20 per share, bearing a fixed coupon rate of 5% per annum, payable six monthly in arrears. In May 2017 the convertible preference shares mandatorily convert to ordinary shares in accordance with a conversion ratio. If the ordinary share price (at that time) is greater than \$0.24, then each convertible preference share will convert to ordinary shares on a 1:1 basis. If the ordinary share price is less than or equal to \$0.24, then preference shares convert at \$0.20 divided by 80% of the then share price for each preference share held.

The preference shares are recognised initially as a liability at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value (being 25,211,740 shares at \$0.25) is recognised in the income statement over the period to conversion using the effective interest method. The coupon on these shares will be recognised in the income statement as interest expense.

| | CONSOLIDATED \$000s |
|--------------------------------------|------------------------|
| Preference shares – redemption value | 6,303 |
| Proceeds of issue | 5,042 |
| Less costs of issue | (346) |
| Net proceeds | 4,696 |
| Embedded derivative (note 22) | 565 |
| Liability at date of issue | 4,131 |

| | CONSOLIDATED | | PARENT COMPANY | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Liability at start of year | - | - | - | - |
| New issue | 4,131 | - | 4,131 | - |
| Amortisation | 376 | - | 376 | - |
| Liability at end of year | \$4,507 | \$- | \$4,507 | \$- |

The effective interest rate on the liability at 31 December 2014 was 19.15% taking into account costs of issue. The liability has been classified as non-current because the preference shares convert in 2017.

The carrying value at amortised cost of the borrowings approximates its fair value, as the impact of discounting is not significant.

22. DERIVATIVE FINANCIAL INSTRUMENTS

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Option embedded in the preference shares | (10) | - | (10) | - |
| Forward foreign exchange contracts | (4) | 31 | (4) | 31 |
| Asset / (liability) at end of year | (\$14) | \$31 | (\$14) | \$31 |

(a) Embedded option

The mandatory convertible preference shares have the characteristics of both a bond-like security and an embedded option:

- The bond like component promises the preference shareholders the payment of a coupon of 5%, payable on a 6 monthly basis, in arrears;
- The embedded option component provides the preference shareholders with the ability to benefit if the share price of the Company's ordinary shares is above \$0.25 at the conversion date.

The embedded option derivative is initially recognised at fair value as determined by an independent valuer using the Black-Scholes valuation model. It is subsequently remeasured by the Company at 31 December. The Company's Chief Financial Officer performs the valuation of the embedded option using key variables at the reporting date. Changes in the fair value are recorded in the income statement as a "finance cost / income".

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Liability at start of year | - | - | - | - |
| New issue (note 21) | (565) | - | (565) | - |
| Gains recognised in finance income (note 10) | 581 | - | 581 | - |
| Exchange adjustments | (26) | - | (26) | - |
| Liability at end of year | (\$10) | \$- | (\$10) | \$- |

The key variables applied in the assessment of the value of the embedded option are:

| | 31 December 2014 | On issue |
|--------------------------------|------------------|-------------|
| Exercise price | \$0.25 | \$0.25 |
| Risk free rate | 3.6% | 3.9% |
| Ordinary shares – market price | \$0.077 | \$0.15 |
| Volatility of share price | 38.74% | 47% to 53% |
| Expiry date | 19 May 2017 | 19 May 2017 |

The embedded option is highly sensitive to the market share price at the date of valuation. All other key variables do not have a significant impact on the fair value measurement.

(b) Forward foreign exchange contracts

The majority of the Group's revenue is invoiced in USD and the majority of the Group's product and logistics costs are settled in USD. Head office and Engineering costs are largely NZD denominated. The Parent may hedge highly probable forecast NZD costs that are expected to occur at various dates over the next 6 months. These contracts are timed to mature when the costs will be incurred. The forward currency contracts are considered to be highly effective as they are matched against forecast cash outflows with any gain/loss on contracts attributable to the hedged risk taken directly to equity and recycled to the Statements of Comprehensive Income in the following year when the contract is settled (refer note 26).

23. DEFERRED TAX

| | CONSOLIDATED | | PARENT COMPANY | |
|---|-----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Unrecognised deferred tax assets | | | | |
| Doubtful debts | 40 | 40 | 14 | 15 |
| Inventory provisions | 91 | 155 | 43 | 89 |
| Employee benefits | 158 | 202 | 158 | 202 |
| Other timing differences | 72 | 99 | 72 | 99 |
| Tax losses to carry forward | 26,149 | 24,580 | 23,221 | 21,561 |
| Unrecognised net deferred tax asset | \$26,510 | \$25,076 | \$23,508 | \$21,966 |

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 above deferred tax balances. The Company and Group recognise possible unused tax losses and temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary tax differences and losses.

24. CONTRIBUTED EQUITY

| CONSOLIDATED & PARENT | 2014 Shares | 2013 Shares | 2014 \$000s | 2013 \$000s |
|-----------------------------------|--------------------|----------------|------------------|----------------|
| Ordinary shares – fully paid | 126,373,117 | 126,058,703 | 114,273 | 114,289 |
| Ordinary shares – partly paid | 6,941,452 | 3,790,649 | 35 | 19 |
| US employee share options | 673,510 | 288,647 | - | - |
| Share warrants | 5,300,000 | 5,300,000 | - | - |
| Preference shares (note 21) | 25,211,740 | - | - | - |
| Total shares and options on issue | 164,499,819 | 135,437,999 | \$114,308 | \$114,308 |

(a) Ordinary shares – fully paid

| | | | | |
|--|--------------------|-------------|------------------|-----------|
| Opening balance of ordinary shares on issue | 126,058,703 | 80,766,450 | 114,289 | 108,495 |
| Issues of ordinary shares during the year: | | | | |
| • March 2013 issues at 13 cents for cash | - | 16,000,002 | - | 2,080 |
| • May 2013 Share Purchase Plan at 13 cents for cash | - | 3,923,021 | - | 510 |
| • June 2013 issues at 13 cents for cash | - | 14,769,230 | - | 1,920 |
| • September 2013 placement at 15.5 cents for cash to East West Manufacturing | - | 10,600,000 | - | 1,643 |
| • June 2014 issues at 11 cents for cash | 314,414 | - | 34 | - |
| • Share issue costs | - | - | (50) | (359) |
| Ordinary fully paid shares on issue at year end | 126,373,117 | 126,058,703 | \$114,273 | \$114,289 |

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 | 3,790,649 | 1,959,926 | 19 | 49 |
| Issues of partly paid shares during the year: | 3,150,803 | 2,443,320 | 16 | 12 |
| Lapsed | - | (612,597) | - | (42) |
| Surrendered | - | - | - | - |
| Ordinary part paid shares on issue at year end | 6,941,452 | 3,790,649 | \$35 | \$19 |

24. Contributed Equity (continued)

| 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 2014 (numbers) | Outstanding at 2013 (numbers) |
|-------------|---------------------------|----------------------|----------------------------|---------------------------------|-------------------------------------|-------------------------------|-------------------------------|
| 6 Dec 2011 | 6 Dec 2013 | 6 Dec 2015 | 25.56 | 25.56 | 25.06 | 1,347,329 | 1,347,329 |
| 15 Apr 2013 | 15 Apr 2015 | 15 Apr 2017 | 17.25 | 17.25 | 16.75 | 807,665 | 807,665 |
| 24 Jun 2013 | 24 Jun 2016 | 24 Jun 2018 | 16.29 | 16.29 | 15.79 | 1,635,665 | 1,635,665 |
| 18 Jun 2014 | 18 Jun 2016 | 18 Jun 2018 | 14.22 | 14.22 | 13.72 | 1,260,587 | - |
| 23 Jul 2014 | 23 Jul 2017 | 23 Jul 2019 | 14.73 | 14.73 | 14.23 | 1,890,216 | - |

A Partly Paid Share Scheme was established in June 2008, to enable certain employees to acquire shares in the Company. Under the Scheme the issue price is the calculated as the weighted average of the market price over the 10 trading days prior to the issue date, plus 20% where the earliest exercise date is 2 years after issue, or 30% where the earliest exercise date is 3 years after issue. 0.5 cents per part-paid share is required to be paid on issue. 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.

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 1,347,329 part paid shares in December 2011, 807,665 part paid shares in April 2013 and a further 1,260,587 part paid shares in June 2014 that have a two year vesting period.

Directors have agreed the 1,347,329 part paid shares issued in December 2011 to Mr Allen, have satisfied the hurdle price requirements of the Scheme. Mr Allen has until December 2015 to take up his entitlements to the 1,347,329 shares and settle the balance of the issue price of 25.06 cents per share due in respect of the shares plus any holding cost applicable under the Scheme.

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.

The model inputs for partly paid shares issued were as follows:

| | 2014 issues | 2013 issues | 2011 issue |
|---|-------------------|---------------------|-------------|
| • Market price or "hurdle price" required to enable the partly paid shares to be exercised: | 14.22-14.73 cents | 16.29 - 17.25 cents | 25.56 cents |
| • Expected volatility of the Company's shares: | 46.57% | 52.7% | 60% |
| • Risk-free interest rate: | 3.63 - 3.87% | 2.87% | 2.5% |
| • Expected term: | 2 - 3 years | 2 - 3 years | 2 years |

(c) U.S. employee share options (numbers)

| | 2014 Share Options | 2013 Share Options |
|--|--------------------|--------------------|
| Options outstanding at start of year | 288,647 | 37,500 |
| Issues of U.S. employee options during the year: | 384,863 | 288,647 |
| Lapsed | - | (37,500) |
| Outstanding at end of year | 673,510 | 288,647 |

24. Contributed Equity (continued)

The Annual Meeting held in June 2010 approved the establishment of the United States Share Option Plan and authorised the Board to issue up to 3,000,000 options. All options must be exercised within 12 months after a period of three years from the date on which the options are issued. 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 2014 (numbers) | Outstanding at 2013 (numbers) |
|-------------|-------------|---------------------------|-------------------------------------|-------------------------------------|
| 24 Jun 2013 | 24 Jun 2017 | 16.9 | 288,647 | 288,647 |
| 23 Jul 2014 | 23 Jul 2018 | 14.3 | 288,647 | - |
| 21 Aug 2014 | 21 Aug 2019 | 12.2 | 96,216 | - |

The model inputs for partly paid shares issued were as follows:

| | 2014 issue | 2013 issue |
|---|-------------------|------------|
| • Market price or “hurdle price” required (being the issue price plus 30%), to enable the partly paid shares to be exercised: | 12.2 – 14.3 cents | 16.9 cents |
| • Expected volatility of the Company’s shares | 46.57% | 52.7% |
| • Risk-free interest rate: | 3.87% | 2.87% |
| • Expected term: | 3 years | 3 years |

(d) Share warrants (numbers)

| | 2014 | 2013 |
|---------------------------------------|-----------|-----------|
| Warrants outstanding at start of year | 5,300,000 | - |
| Issues of warrants during the year: | - | 5,300,000 |
| Exercised or lapsed during the year | - | - |
| Outstanding at end of year | 5,300,000 | 5,300,000 |

In September 2013, Wellington issued 5,300,000 share warrants to East West Manufacturing LLC. Terms of the warrants allow East West to acquire additional share capital in Wellington at 20 cents per share by September 2015.

25. ACCUMULATED LOSSES

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Opening balance | (102,520) | (99,004) | (105,532) | (99,020) |
| Loss for the year | (4,474) | (3,768) | (2,431) | (6,764) |
| Surrendered & lapsed employee share option scheme benefits | - | 252 | - | 252 |
| Accumulated losses at end of year | (\$106,994) | (\$102,520) | (\$107,963) | (\$105,532) |

26. OTHER RESERVES

| | CONSOLIDATED | | PARENT COMPANY | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Share option compensation reserve | 170 | 121 | 170 | 121 |
| Currency translation reserve | (2,502) | (2,580) | (2,111) | (2,409) |
| Hedging reserve | (4) | 31 | (4) | 31 |
| | (\$2,336) | (\$2,428) | (\$1,945) | (\$2,257) |

(a) Share Option Compensation Reserve

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Share based compensation recognised at start of year | 121 | 258 | 121 | 258 |
| Net compensation expensed | 49 | 115 | 49 | 115 |
| Surrendered & lapsed share option scheme transferred to accumulated losses | - | (252) | - | (252) |
| | \$170 | \$121 | \$170 | \$121 |

A description of the Wellington Partly Paid Share Scheme and Employees Share option Plan (ESOP) is provided in Notes 24(b) and 24(c) above.

(b) Currency Translation Reserve

| | | | | |
|------------------------|------------------|------------------|------------------|------------------|
| Opening balance | (2,580) | (2,310) | (2,409) | (2,443) |
| Movements for the year | 78 | (270) | 298 | 34 |
| | (\$2,502) | (\$2,580) | (\$2,111) | (\$2,409) |

The Currency Translation Reserve comprises of all foreign exchange differences arising from the translation of financial statements of foreign operations into New Zealand dollars.

In the Parent, the Currency Translation Reserve comprises all foreign exchange differences arising from the translation of financial statements in its functional currency (US dollars) to New Zealand dollars for presentation purposes.

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| (c) Hedging reserve | | | | |
| Opening balance | 31 | (2) | 31 | (2) |
| Cash flow hedge fair value (losses) / gains for the year | (35) | 33 | (35) | 33 |
| Tax on fair value (losses)/gains | - | - | - | - |
| | (\$4) | \$31 | (\$4) | \$31 |

The Hedging Reserve records the portion of the gain or loss on a hedging derivative in a cash flow hedge. The amounts are recognised in the Statements of Comprehensive Income when the associated hedge transactions affect profit and loss.

27. CONTINGENCIES

The Company has been notified of claims in respect of discontinued ventilation motor products. The claims are being discussed with the customers in question. Current legal advice is that the Company is in a strong position contractually to reject any claim. It is not possible to quantify the amount of any possible future settlement. There are no material contingent liabilities or assets (2013 - \$nil).

28. COMMITMENTS

(a) Capital commitments

Capital commitments at 31 December 2014 amounted to \$190,000 (2013 - \$402,000).

(b) Lease commitments : Group as lessee

The Group leases various offices, facilities and equipment. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

| Operating leases | CONSOLIDATED | | PARENT COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Within one year | 275 | 453 | 224 | 299 |
| Later than one year but not later than five years | 951 | 1,227 | 920 | 1,182 |
| Later than five years | 40 | - | 38 | - |
| | \$1,266 | \$1,680 | \$1,182 | \$1,481 |

29. RELATED PARTY TRANSACTIONS

(a) Directors

The names of persons who are directors of the Company are on page 14.

(b) Key management personnel and compensation

Key management personnel compensation for the years ended 31 December 2013 and 2014 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.

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Salaries, fees and other short term benefits | 1,522 | 1,291 | 1,522 | 1,291 |
| Share based remuneration | 44 | 92 | 44 | 92 |
| Directors' remuneration | 174 | 164 | 174 | 164 |
| Bonuses | 148 | 416 | 148 | 416 |
| Total | \$1,888 | \$1,963 | \$1,888 | \$1,963 |

The Individual Employment Contract between the Company and the Chief Executive Officer, Mr Greg Allen provides that 1% of the then listed share capital of the Company shall be issued as part paid shares (in accordance with the Partly Paid Share Scheme refer note 24(b)) for each of the financial years 2013, 2014 and 2015, subject to agreed performance hurdles.

(c) Transactions

During the year the Parent purchased and sold inventories to and from its subsidiaries and advanced loans to its subsidiaries. These transactions and balances are by way of internal current accounts that are set out below.

In presenting the financial statements of the Group, the effect of these transactions and balances between subsidiaries and those with the Parent have been eliminated.

The main transactions between the Parent and its subsidiaries involve:

- Sales of product and components by the Parent to its marketing subsidiaries; Wellington Drive Sales Ltd, Wellington Drive Technologies US, Inc., Wellington Motor Tecnolojileri San Tic Ltd Sti, Wellington Drive Latin America Services SA de CV and Wellington Drive Technologies Group Singapore Pte Ltd;
- Purchase of product from Wellington Drive Technologies US, Inc.
- Tax subvention payment from Wellington Drive Sales Ltd to the Parent;
- Purchases of sales and marketing services from Wellington Tecnolojileri San Tic Ltd and Wellington Drive Latin America Services SA de CV;
- Purchases of supply chain management services from Wellington Manufacturing Group Singapore Pte Ltd.

29. Related party transactions (continued)

The following transactions occurred with related parties during the year:

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Revenue – subsidiaries | - | - | 16,458 | 23,077 |
| Purchases – subsidiaries | - | - | (1,649) | (297) |
| Other income – subsidiaries | - | - | 3,203 | 679 |
| Other expenses – subsidiaries | - | - | (636) | (1,419) |
| Operating cash inflows – subsidiaries | | | 17,083 | 26,558 |
| Operating cash outflows – subsidiaries | - | - | (1,255) | (1,123) |

During the year the Company increased its investment in shares in a Singapore subsidiary by capitalising SGD4.9 million owed by the subsidiary to the Company. The advance had been impaired in prior years so the impairment provision was released in 2014 and re-established against the investment in shares.

(d) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | CONSOLIDATED | | PARENT COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Trade receivables from subsidiaries | - | - | 574 | 827 |
| Loans to subsidiaries | - | - | 11,437 | 14,289 |
| Provisions made in respect of loans to subsidiaries | - | - | (6,080) | (9,677) |
| Payables to subsidiaries | - | - | - | (182) |
| Entitlements payable to directors and key management personnel | (283) | (593) | (283) | (593) |

(e) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties.

Outstanding balances are unsecured and are repayable on demand in cash.

30. EARNINGS PER SHARE

(i) Basic

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2014 | 2013 |
|---|--------------|--------------|
| Loss attributable to equity holders of the Company | (4,474,000) | (3,768,000) |
| Weighted average number of ordinary shares in issue (thousands) | 140,703 | 107,850 |
| Basic earnings per share | (3.18 cents) | (3.49 cents) |

(ii) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options.

30. Earnings per share (continued)

| | 2014 | 2013 |
|---|---------------------|--------------|
| Loss attributable to equity holders of the Company | (4,474,000) | (3,768,000) |
| Weighted average number of ordinary shares in issue (thousands) | 140,703 | 107,850 |
| Adjustment for partly paid shares or share options | - | - |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 140,703 | 107,850 |
| Diluted earnings per share | (3.18 cents) | (3.49 cents) |

The weighted average number of ordinary shares on issue for the purpose of the basic and diluted earnings per share calculation includes 25,211,740 preference shares (2013: Nil), being the minimum number of ordinary shares that will be issued upon conversion (note 21).

As at 31 December, the following instruments existed that are, or were, potentially dilutive of future earnings per share, but were not included in the calculation of dilutive shares for that year because the effect in that year would have been antidilutive:

| | Number of shares | |
|--|------------------|-----------|
| | 2014 | 2013 |
| Part paid shares | 6,941,452 | 3,790,649 |
| US employee share options | 673,510 | 288,647 |
| Share warrants issued to East West Manufacturing LLC | 5,300,000 | 5,300,000 |

31. RECONCILIATION OF LOSS AFTER TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | CONSOLIDATED | | PARENT COMPANY | |
|--|------------------|----------------|----------------|----------------|
| | 2014 \$000s | 2013 \$000s | 2014 \$000s | 2013 \$000s |
| Loss after taxation for the period | (4,474) | (3,768) | (2,431) | (6,764) |
| Adjustments for: | | | | |
| Depreciation and amortisation | 447 | 518 | 429 | 501 |
| Impairment of plant, equipment & intangibles | 55 | 318 | 55 | 318 |
| Loss / (gain) on disposal of plant & equipment | 2 | (3) | (4) | 4 |
| Share based payments | 49 | 115 | 49 | 115 |
| Amortisation of borrowing | 376 | - | 376 | - |
| Change in fair value of embedded option | (555) | - | (555) | - |
| Inventory provision movement (note 15) | (109) | (72) | (58) | 395 |
| Doubtful debts provision movement (note 14) | (20) | (168) | (5) | (36) |
| Impairment of subsidiary company advances | - | - | (4,059) | (876) |
| Impairment of investments in subsidiaries | - | - | 4,928 | 19 |
| Provision for warranty movement (note 20) | (27) | (243) | (27) | (243) |
| Provision for restructuring movement (note 20) | (195) | (284) | (195) | (199) |
| Net foreign exchange differences | (288) | (345) | 101 | (39) |
| Decrease / (increase) in advances to subsidiaries | - | - | (1,606) | 4,768 |
| Decrease / (increase) in trade and other receivables | 2,602 | 795 | 600 | (534) |
| (Increase) / decrease in inventories | (590) | 623 | 278 | 265 |
| Increase / (decrease) in trade and other payables | (1,699) | 78 | (2,160) | 496 |
| Net cash outflow from operating activities | (\$4,426) | (\$2,436) | (\$4,284) | (\$1,810) |

Directory

Directors

Tony Nowell, *Chairman*
Shawn Beck
Dr Lisbeth Jacobs
John McMahon
Mr Gottfried Pausch

Senior Staff

Greg Allen, *Chief Executive Officer*
Steven Hodgson, *Senior Vice President Commercial*
David Howell, *Chief Technical Officer*
Howard Milliner, *Chief Financial Officer*
Ali Karahasanoğlu, *Sales Director, Europe / Eurasia*
Erick Layseca-Flores, *Business Development
Manager, Americas*
Clayton Thomas, *Sales & Marketing Director, Asia /
Pacific*
Gerardo Gonzalez, *VP Intelligent Systems
Business Unit*
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Bank of New Zealand

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