

# *Beyond the Motor*



## Annual Report 2015

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### Our Mission

Wellington's purpose is to deliver solutions to solve our customers' refrigeration energy consumption and system control problems through the development of Advanced Motor and Intelligent Control Solutions. Our Personal service, Reliable products, Smart Solutions and Relentless pursuit of excellence will ensure we lead the competition and build a world class company.

# Contents

## Overview

- 1. Our Business
- 5. 2015 Business Highlights
- 6. Report of the Chairman and Chief Executive Officer

## Our Company

- 12. Directors
- 13. Senior Management
- 15. Statement of Comprehensive Income
- 16. Statement of Movements in Equity
- 17. Statement of Financial Position
- 18. Cash Flow Statement

## Notes to the Financial Statements

- 20. Basis of Preparation
- 23. Results for the Year
- 28. Operating Assets and Liabilities
- 35. Capital and Financing Costs
- 38. Risk
- 41. Other Information
- 47. Independent Auditors' Report
- 49. Statutory Information
- 52. Shareholder Information
- 54. Corporate Governance

- 57. Directory

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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). A discussion of risk is set out on pages 38 to 40 of this document.

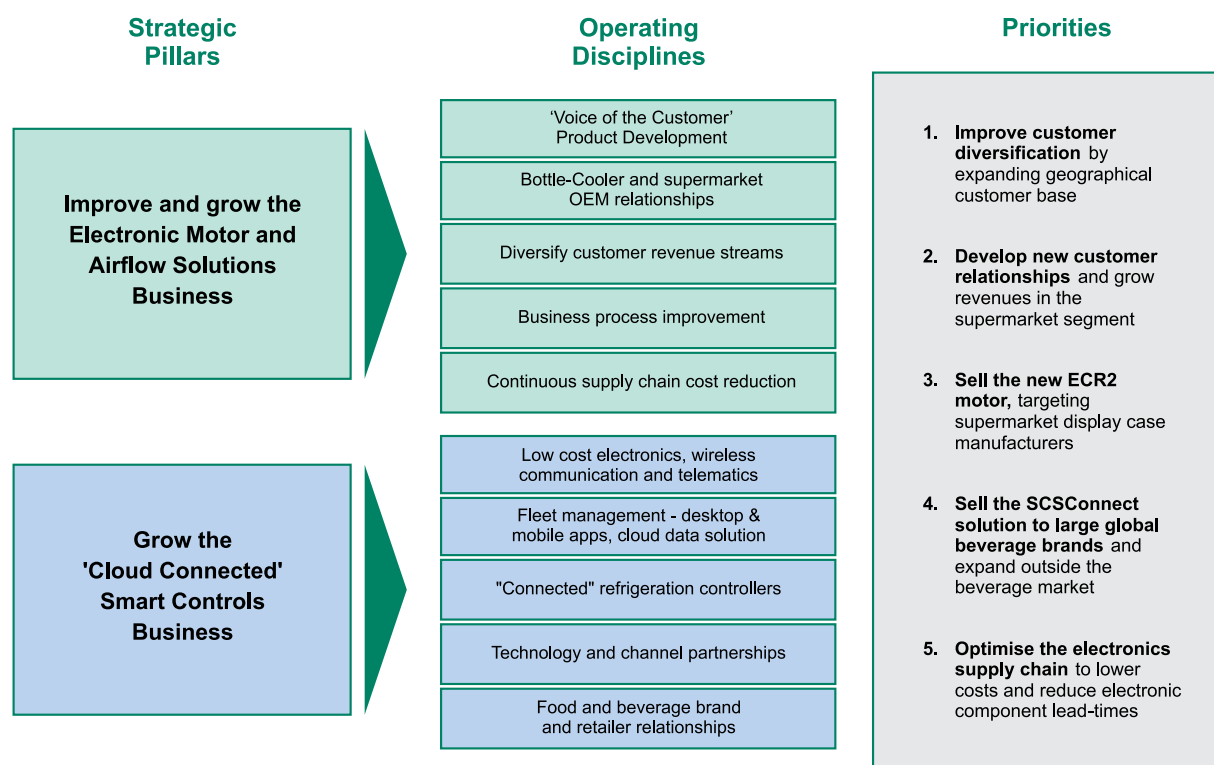
# Our Business

## Our 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

Wellington's strategy has remained consistent since 2012. The completion of its new energy efficient ECR<sup>®</sup> 2 motor ensures that Wellington continues to lead with its EC motor offering, and the introduction of its cloud connected SCS Connect<sup>™</sup> platform ensures that its 'Beyond the Motor' vision is being realised. Wellington's strategy is to provide customers with innovative new products, supported by a low cost supply chain to deliver diversified revenues leading to positive earnings.



The two pillars of the Company's strategy are:

- ✓ **Improve and grow the Electronic Motor and Airflow Solutions business** by focusing on customer driven product development, 'bottle cooler' market growth plans, selling the ECR2 motor to supermarket equipment manufacturers, diversifying motor revenue streams in new geographical markets, improving and simplifying business processes, and through continual cost reduction in the supply chain.
- ✓ **Grow the 'Cloud Connected' Smart Controls business** by developing low cost wireless controller solutions for retail brands, taking the new SCS Connect fleet management solution to market, delivering sales success through reducing total cost of ownership of the refrigeration system, and improving the operational and sales performance of the refrigerator.

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

1. Further improve customer diversification by expanding the geographical customer base
2. Develop new customer relationships and revenue growth in the supermarket segment
3. Sell the new ECR2 motor, targeting supermarket display case customers
4. Sell the SCS Connect fleet management solution to large global beverage brands
5. Optimise the electronics supply chain to lower costs and reduce component lead-times further

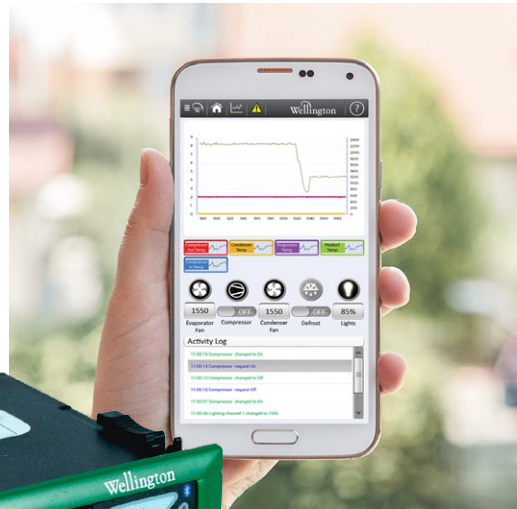
## Our Products

Wellington serves customers with its motor, airflow and 'connected' controller solutions for use in beverage coolers, ice cream and food freezers and supermarket display cases. The product portfolio offers a range of refrigeration solutions designed to improve refrigeration efficiency, optimise airflow and reduce the total cost of ownership through enabling customers to improve management of 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 fourth quarter of 2015, the development of the Company's new ECR2 Motor and SCS Connect Smart Controller was completed and the products made available for sale.

*'Quiet and efficient'* - The ECR2 motor offers a step improvement in EC Motor performance with lower noise, the ability to operate on any global mains voltage, 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 refrigeration system.



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

## Our People

Wellington's progress is built around the strength of its team and the depth of its customer relationships. Our people work hard to develop compelling products, solve customers' problems and reduce supply chain costs. The team is dedicated to ensuring the business continually improves its performance and ultimately delivers a positive return for shareholders. We feature below three key staff members.

### Marc Tinsel – Head of Global Manufacturing

"As Head of Global Manufacturing and based in Auckland, New Zealand, I am responsible for managing our supplier partners and ensuring that our products in the market are adequately supported. Our Manufacturing and Supply Chain team looks after customers' delivery needs and ensures that our products continue to perform to the highest quality standards. We focus on business process simplification, improving supply chain systems, reducing product cost and reducing component lead-times. We regularly visit our suppliers' factories, performing quality audits, supporting new product introduction and ensuring they have systems in place to meet our customers requirements. The linkage to the new product development team is critical for product enhancement and we drive any improvements back through the new product team to ensure that any changes are always the best they can be".



### Erick Layseca – Director of Sales, Americas

"I am based in Queretaro, Mexico, the headquarters of our Americas business unit. I look after a team of sales, field engineering and operations professionals in USA, Mexico and Brazil whose job is to manage Wellington's key accounts and support growth of current and new customers across the Americas. We provide feedback to the New Zealand development team on new product designs and services needed to support our customers' products and to win in new commercial refrigeration markets. My team is the first point of contact for customers and leads the resolution of our customers' commercial, product and operational needs. Our team is measured on customer satisfaction, sales growth and margin expansion and we were pleased to deliver 48% revenue growth in 2015. I am proud to lead a team where we always focus on developing the best possible relationships with customers".



### Clayton Thomas – Director of Sales, Asia Pacific

"My office is in Shanghai, China from where I lead the commercial efforts to grow our Asia Pacific business. I was very pleased with the 18% growth we saw in my region in 2015, a testament to the hard work of my team and the growing acceptance of EC motors by supermarket manufacturers in China and Asia generally. Our largest market for motors is Thailand, where we sell our shaded pole motor, followed by China. Our team's focus in the region this year will be to support the roll-out of the SCS Connect product for a large global beverage brand and to develop new customers for our motor range. One of my other responsibilities, given my location in China, is as the executive that leads the relationship with our Changzhou based motor supplier. I work closely with our New Zealand manufacturing engineers to ensure this supplier is managed well and we have deep relationships all the way up to their founder and CEO. In Asia, developing customer relationships is essential so I spend most of the time on the road getting to know existing and new customers and developing new sales channels".





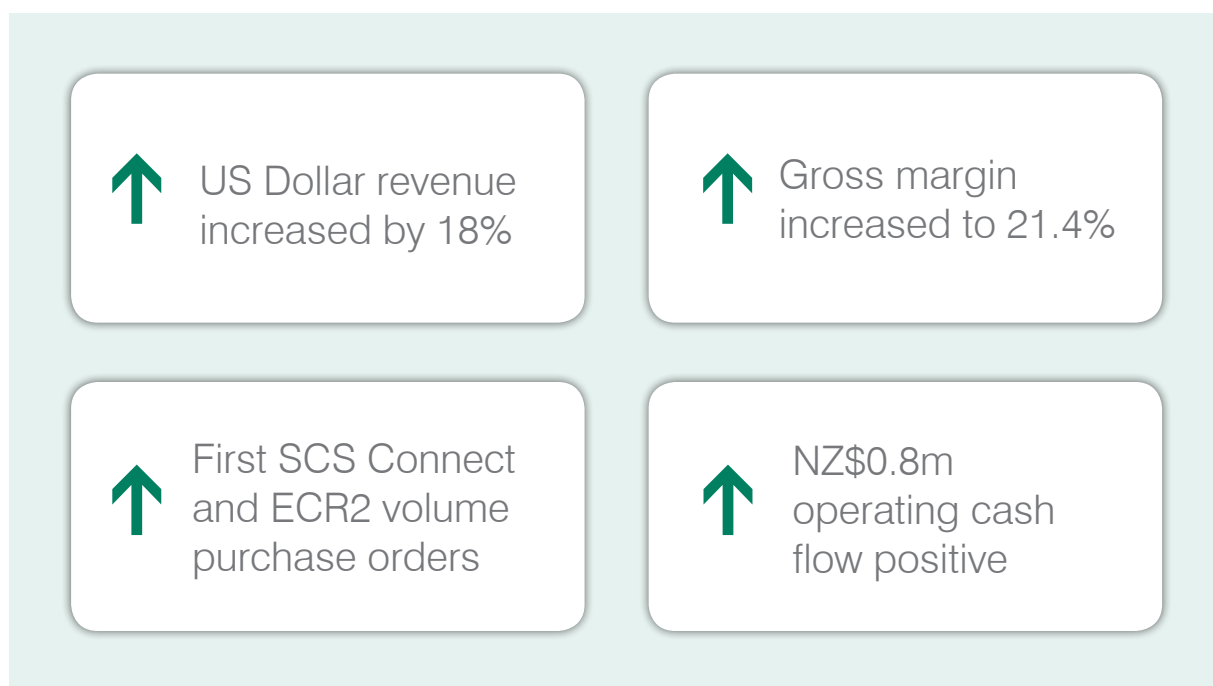
## Our Supply Chain Network

Since 2004, Wellington has delivered over 6 million motors to customers across 26 countries and has now commenced shipment of its new Connected Controller product platform. 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, Canada and the USA, working around the clock to ensure that Wellington 'delivers' for customers.

With its supply chain partner factories in Vietnam, China, and Malaysia specialising in motor mechanical assembly, plastics design and injection moulding and electronics manufacture, and regional distribution partners in the UK, USA, South Africa and China, 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.



## 2015 Business Highlights



Revenue growth increased from US\$14.8 million in 2014 to US\$17.4 million in 2015, largely as a result of Latin America and Asia growth

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Gross margin increased to 21.4% from 18.0% due to supply chain cost reductions

.....

SCS Connect and ECR2 completed development and started volume production

.....

NZ\$0.8m positive operating cash flow due to inventory reduction and improved collection of receivables

# Report of the Chairman and Chief Executive Officer

## 2015 in Review

2015 was a year of continued positive momentum and financial improvement for the Company – the result of our focus on a long-term growth strategy, diversifying revenue, improving margins in the core motor business and developing a cloud connected smart controls business.

The team delivered volume growth of 23% - a direct result of focusing on expanding sales reach in new regions and new customer diversification. We grew revenue in Latin America and Asia as a result of adding new customers and the market rebound in Mexico. Unfortunately we did not grow in Europe due to the continued macro-economic slump in the region, however we did add new customers that we expect to deliver revenue in 2016.

Our two new flagship products, the ECR2 motor and SCS Connect cloud connected solution, were completed and successfully launched with initial orders delivered to customers in the first quarter of 2016.

The Company's low cost, high capability supply chain strategy (which began in 2013) is delivering strong results, with a gross margin of 21.4% for the 2015 year, up from 18% in 2014. Wellington's supply chain partners for motors and electronics are all helping the Company to meet its gross margin targets and they continue to invest in the manufacturing capability that Wellington needs to meet customer demand. The ongoing focus on improving supply chain efficiency gives us confidence that we will continue to improve on the 2015 gross margin performance.

Whist never satisfied on cost reduction and margin expansion, Wellington now has gross margin and operating costs at a level that allows management to put more focus on revenue growth from the newly developed ECR2 and SCS Connect products.

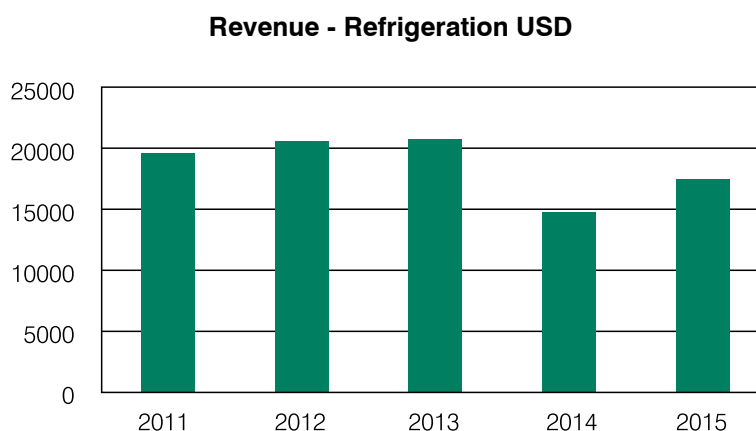
Financial performance in 2015 met expectations. Revenue was NZ\$24.6 million with gross margin of 21.4%. The loss for the year was NZ\$2.8 million compared to NZ\$4.5 million in 2014. Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA <sup>note 1</sup>) was a loss of NZ\$1.4 million compared to a NZ\$4.0 million loss in 2014.

The board was pleased with the reduction in working capital and improvement in receivables collection performance that enabled the business to deliver a positive operating cash flow of NZ\$0.8 million.

## Revenue Performance

In US Dollar terms, revenue in 2015 was US\$17.4 million compared to US\$14.8 million in 2014. Wellington shipped 1.1 million motors in 2015, versus 0.9 million in 2014.

Commercial refrigeration revenue annual trend:



Diversifying revenues by adding new customers was the main sales focus, and as a result, eight new customers were added globally – all of which were in the supermarket display case sector.

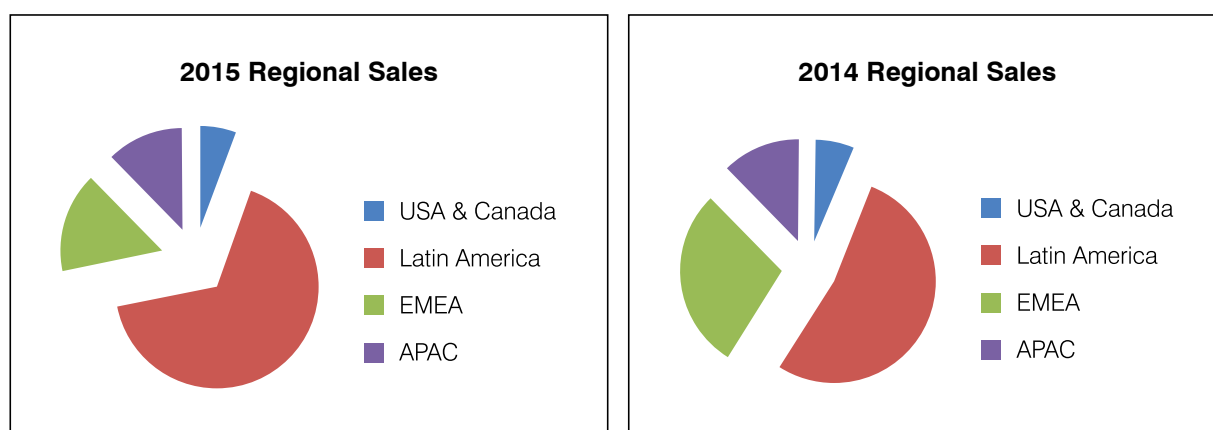


2015 saw the return of stronger customer demand in Latin America with 48% higher revenues. Most customers in Latin America, with the exception of those in Brazil, showed improved demand with particularly strong performance from Mexico and Columbia. This is the result of Wellington regaining share with some customers, an increased investment in bottle coolers by retail brands, and bottlers rebuilding inventory levels to prepare for 2016 which they did not do to the same extent in 2014. Brazilian demand remained weak due to the difficult macro-economic issues in that country.

The USA remained relatively flat year over year as that region awaited the launch of our new ECR2 motor which will support manufacturers as they upgrade their coolers to meet the Department of Energy's stricter 2017 energy saving requirements. The USA business is expected to show growth in 2016 as the ECR2 ships to these customers.

Asia Pacific (APAC) revenues increased 18% due to new customer wins and as a result of being able to transact in Yuan for China domestic business this year through Wellington's distributor East West China. The market in China is dominated by shaded pole rather than EC Motor business and Wellington foresees more opportunities for its shaded pole motor in this region in 2016.

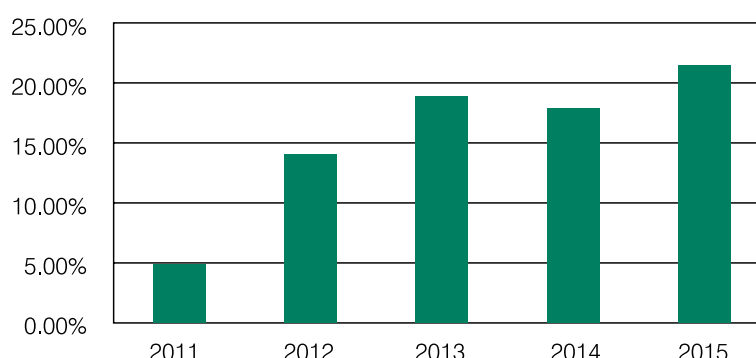
Europe, Middle East and Africa (EMEA) region revenue decreased 35% as the European macro-economic situation impacted customer demand. Also a large cooler customer moved to a dual sourcing model which impacted our supply to them. Wellington is winning new ECR motor customers in this region for existing products and the ECR2 motor and expects to grow revenues again in 2016.



## Gross Profit Performance

The transition to East West as Wellington's second source of EC Motor manufacture, located in Vietnam, was successfully completed in late 2014. Motor production increased throughout early 2015 and the "milestone" 300,000th motor was reached in June 2015, driving increased production efficiencies and improved component costs. The ongoing improvement in supply chain performance, both from East West and our China based EC Motor supplier enabled gross margins for 2015 of 21.4% compared to 18.0% in 2014. Wellington's supply chain partners are focused on cost reduction and manufacturing efficiency and we expect to improve on the 21.4% in 2016.

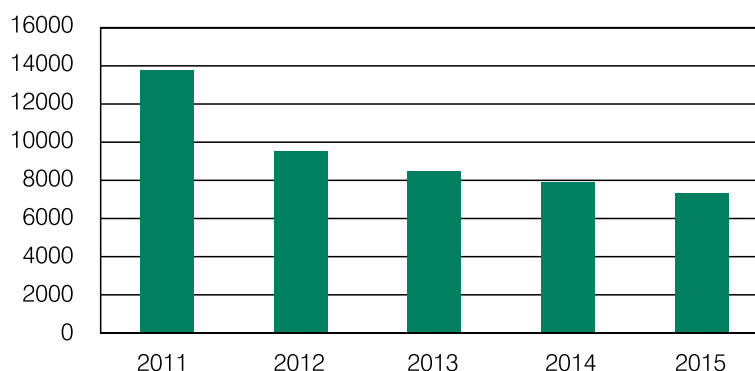
### Gross Profit %



## Operating Expenses

Operating expenses for 2015 were \$7.8 million, a reduction of \$0.6 million compared to 2014. The reduction in spending would have been \$1.0 million if the NZD / USD exchange rate had remained unchanged from 2014. The reduction in expenses is attributable to lower staff costs resulting from the temporary suspension of the Company's short term incentive plan, the full year impact of the closure of the Singapore office which occurred in June 2014 and other cost reduction initiatives focused on business system simplification, meaning we continue to do more with less people.

**Operating Costs (excluding depreciation, amortisation & impairment) - NZD 000's**



## Cash and working capital performance

The Company generated a \$0.8 million cash inflow from operating activities this year compared to a \$4.4 million cash outflow in 2014. This improvement is attributed to the reduction in the loss for the year, a \$1.0 million reduction in inventory levels despite higher fourth quarter volumes, and a reduction in the collection period for trade receivables.

In 2015, Wellington invested \$2.2 million to complete the development of the ECR2 motor and SCS Connect platform, to commence development of the previously announced EC-Frame motor, to progress our joint development project with East West and to invest in necessary plant & equipment. This was the same level of investment as in 2014.

In June 2015, the Company completed a \$3.2 million capital-raising programme to fund the completion and successful marketing launch of those new products. The board and management team appreciate the support of shareholders, which enabled the Company to launch these products and begin to win new business.

Wellington closed the year with \$2.9 million in the bank, compared to \$1.2 million at the end of 2014.

## Operating process improvement

The board and management team continued to increase their focus on health and safety in 2015. The Board takes steps to ensure that it has a good understanding of health and safety matters in the workplace, including the Company's global offices and hazards and risks associated with those offices. For several years the Company has operated a health and safety committee that reports to the board on a monthly basis, managing health and safety processes and system improvements. This committee met regularly throughout 2015, identifying several areas of improvement that were implemented. Over the past year the Health and Safety committee has:

- Continued to review issues impacting the Company and drive continuous improvement;
- Identified potential workplace hazards and investigated the reported accidents that have occurred, managing and implementing solutions for these items;
- Prepared work safe procedures for the New Zealand workshop area and upgraded procedures for testing selected equipment;
- Ensured ongoing electrical safety testing continued in the design lab area;
- Ensured appropriate fire evacuations and training drills were completed; and
- Completed ergonomic assessments of workstations and sourced items to assist in this area.

No work related Accident Compensation claims have been made in the last 5 years. The Board and management team continue to treat its health and safety practices as a vital part of its operating system.

## 2015 priorities – performance report

The Company's sales and marketing focus for 2015 was to consolidate and grow existing bottle cooler customer revenues and diversify revenue streams into new markets.

In particular the sales plan was to:

- sell existing products to bottle cooler customers in current and new geographies;
- sell existing products to display case customers in the supermarket segment;
- sell existing products to new non-bottle cooler and non-supermarket segments;
- sell ECR2 and SCS Connect products to bottle cooler and supermarket segments; and
- develop retail brand sponsorship and bottle cooler customers for the SCS Connect solution

Existing ECR01, ECR82 and ECR92 products that are used in bottle coolers underpinned the growth in 2015, with the ECR01 volume in particular growing year over year by 20%. More customers are taking the ECR01 over the ECR82/92 – a sign that the superior performance of ECR01 continues to be valued by the market. The ECR82/92 range is Wellington's lowest cost, reduced feature motor and is in demand where lowest possible cooler cost is critical.

Wellington's UK distributor opened new supermarket display case channels for our products in the UK and through this channel we expect to sell the ECR2 motor and SCS Smart controller. Wellington has had success in China with the ECR01 motor with mid-tier supermarket display case manufacturers and due to this success moved in late 2015 from a sales agent relationship to a direct sales approach.

We did not experience as much success as expected with selling our existing EC motor products to non-bottle cooler and non-supermarket customers. The beer and ice-cream sectors are becoming more competitive and we will look to new innovations such as the EC-CFrame to capture more share.

The Company's sales strategy to develop deep relationships with food and beverage retail brands and bottlers continued at pace and resulted in Wellington being invited to participate in six new field trials for SCS Connect in 2016, as well as commencing several test programmes for the ECR2 motor. These trials and test programmes are already resulting in new revenue in the first quarter of 2016.

### 2015 – Five Main Priorities

The five strategic priorities in 2015 were designed to ensure a successful launch of the new products and expand the Company's sales reach and customer diversification. Developing a more diversified customer base remains a main priority for 2016 and beyond.

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

Wellington saw growth for its ECR01 and ECR92 motors in China and the UK, both as result of the new distributors added in 2014. An agreement was concluded with East West China to allow Wellington to trade in Yuan and in turn grow its domestic Chinese business. Domestic revenue in China was a modest USD 0.4 million in 2015, up from zero in 2014 and is expected to continue to grow. In the UK, Wellington's distributor has won a number of new supermarket display case programmes with large brand-name retail chains.

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

The ECR2 product completed development and was specifically targeted at the supermarket sector. Wellington expects to rapidly grow revenues in this segment and in 2015 a major USA supermarket refrigeration manufacturer made the decision to use the ECR2 in several new 2016 product lines. This customer is one we had been trying to win for many years with our older products, demonstrating the importance of our innovation process in targeting the needs of new markets and tailoring products to suit those markets.



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

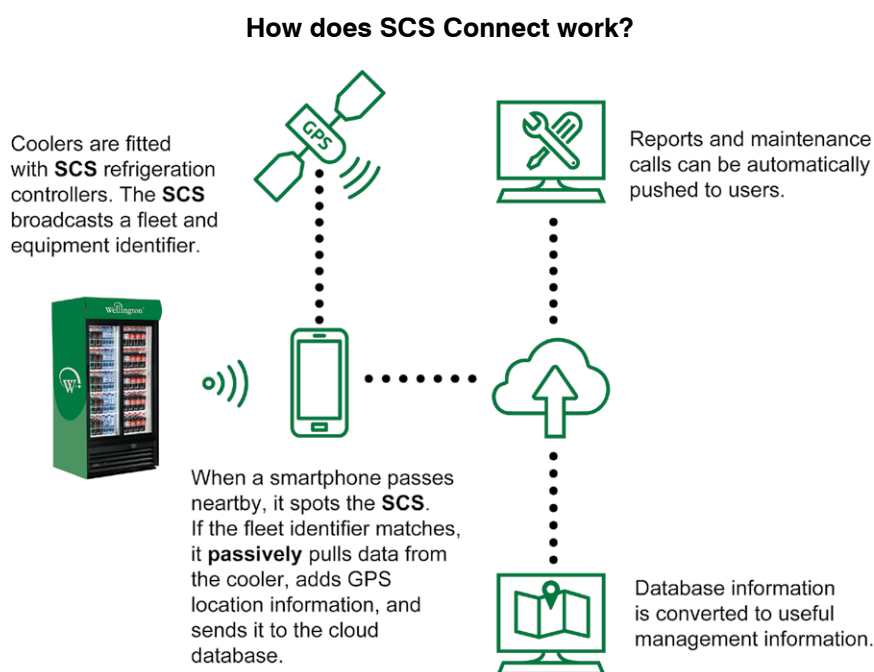
Europe is the most mature market for EC motors in supermarket display cases and was the market we chose to focus on for early adoption. In the fourth quarter 2015 our highly efficient and quiet ECR2 motor passed all regulatory approvals required for Europe and North America. Early in first quarter 2016 we shipped first orders to a large European supermarket display case manufacturer.

### 4. Launching the SCS Connect fleet management solution, the Company's first Smart Controller product

The development of our cloud based connected controller, the SCS Connect, has been completed. A number of high profile field trials are underway with large global beverage brands in countries such as Malaysia, USA, Mexico, Germany and Turkey.

Market trials and customer feedback are informing the team as to the next software and hardware developments required to support the developing needs of Connected Refrigeration fleets worldwide. Wellington is exploring new innovations such as alternative wireless communication methods, remote adaptors for retrofit, remote recognition of product inside the cooler and numerous new cloud data services.

In February 2016 the Company announced that it had received its first sizable purchase order from one global beverage customer for both the connected controller hardware and data reporting services. This order is the start of an expected ongoing multi-year deployment programme.



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

Our supply chain strategy, developed back in 2013, envisaged a fully outsourced supply chain model, with competency in electronics and motors - one that allows Wellington to deliver the most competitive and highly capable manufacturing solution possible. We are pleased to report the benefits of this design are now being realised with gross margins at a 25% run-rate as we start 2016. The flexibility this gives our customers is immense, with motors being sourced from both China and Vietnam and electronics from Malaysia or Vietnam at a cost and delivery performance that allows Wellington to meet its customers' needs.

## 2016 – Five Main Priorities

For 2016, the focus of our priorities will be more heavily weighted to new revenue generation. Indeed the consistency of our profit turnaround and growth strategy over the last four years is what has driven the improvement so far and will take us to a profitable result.

The five main priorities for 2016 are:

1. Further improve customer diversification by expanding the geographical customer base;
2. Develop new customer relationships and grow revenues in the supermarket segment;
3. Sell the new ECR2 motor targeting supermarket customers and bottle cooler customers;
4. Sell the SCS Connect fleet management solution to large global beverage brands and expand the marketing process outside the beverage market; and
5. Further optimise the electronics supply chain to further lower costs and reduce electronic component lead-times

## 2016 Outlook

The company is experiencing an encouraging start to the 2016 financial year. In addition to first orders for the new ECR2 motor and SCS Connect products, we expect revenue in first quarter 2016 to be around US\$6 million compared to US\$4.9 million for first quarter 2015.

Beyond first quarter, the Company has limited demand visibility as our OEM customers only provide forecasts for one to two months out. The continued volatility in demand information from customers makes providing long-range guidance difficult, however given the 2015 increases, the fact that our new products are in the market and the strong first quarter; we expect US Dollar revenue to grow by around 15% in 2016.

Gross margins for the year are expected to be higher than 2015. We anticipate a much smaller loss than last year, with a modest EBITDA profit achievable if demand patterns continue to be positive and new products sell as expected. Planning for 2016 assumes an average NZD / USD rate of 0.65 for the year.

The board has no plans to raise capital in 2016.

The board and management team are excited by the opportunities presented by selling the Company's first significant new products in five years. Customers are telling us that the SCS Connect and ECR2 are leading examples of product innovation that they need and that solve their problems.

We look forward to even further improvement in 2016 and your continued support.



Tony Nowell, CNZM  
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 \$1.802 million (2014 - \$4.509 million loss), less depreciation, amortisation and impairment of \$0.399 million (2014 - \$0.502 million). These numbers have been extracted from our 31 December 2015 Financial Statements.



## Directors



### Tony Nowell, CNZM 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 the Omega Lamb Primary Growth Partnership between the New Zealand Government and Primary Industry participants. He is a board member of New Zealand Food Innovation (Auckland), Food Standards Australia New Zealand, and the Export Advisory Board of Business New Zealand. Mr Nowell is also a New Zealand representative on the APEC Business Advisory Council. He was formerly Deputy Chair of Leadership New Zealand and 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 spent 19 years in private equity and venture capital investing as a founding Director of Pencarrow Private Equity. Prior to this, Mr Beck spent 5 years in capital markets as an equity analyst and trader and investment banker. Over the

last 25 years, he has served on over 15 boards in a wide range of industries, including agriculture, tourism, specialty manufacturing, retail, road and aviation transport, media, engineering consulting and food. Mr Beck emigrated to New Zealand from the US in 1987 and has a BA and an MBA - Economics and Finance. 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. Dr Jacobs is currently 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. 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 Executive 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.



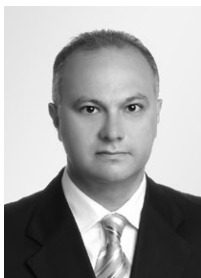
### David Howell – Chief Technical Officer

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, Americas**

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.

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

	Note	2015 \$000s	2014 \$000s
<b>Revenue</b>	2.2	<b>24,572</b>	17,805
Cost of sales		<b>(19,311)</b>	(14,609)
Gross profit		<b>5,261</b>	3,196
Other income	2.3	<b>691</b>	710
Operating expenses		<b>(7,754)</b>	(8,415)
Loss before interest & taxation		<b>(1,802)</b>	(4,509)
Finance income	4.2	<b>49</b>	594
Finance expenses	4.2	<b>(970)</b>	(559)
Loss before income tax		<b>(2,723)</b>	(4,474)
Income tax expense	2.5	<b>(57)</b>	-
<b>Loss for the year</b>		<b>(2,780)</b>	(4,474)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to the profit or loss:</i>			
Exchange differences on translating operations	4.5b	<b>419</b>	78
Cash flow hedge	4.5c	<b>28</b>	(35)
Income tax relating to other comprehensive income		<b>-</b>	-
Other comprehensive income for the year		<b>447</b>	43
<b>Total comprehensive loss for the year</b>		<b>(\$2,333)</b>	(\$4,431)
Loss for the year attributable to the Owners of the Company		<b>(\$2,780)</b>	(\$4,474)
<b>Total comprehensive loss attributable to the Owners of the Company</b>		<b>(\$2,333)</b>	(\$4,431)
Basic earnings per share – cents	2.6	<b>(1.29)</b>	(3.18)
Diluted earnings per share – cents	2.6	<b>(1.29)</b>	(3.18)

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

## Consolidated Statement of Movements in Equity

for the year ended 31 December 2015

2015	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
<b>Balance at 1 January 2015</b>		<b>114,308</b>	<b>(106,994)</b>	<b>(2,336)</b>	<b>4,978</b>
<b>Comprehensive Income</b>					
Loss for year		-	(2,780)	-	(2,780)
<b>Other comprehensive income</b>					
Exchange differences on translating operations	4.5b	-	-	419	419
Cash flow hedge	4.5c	-	-	28	28
Income tax relating to other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>(2,780)</b>	<b>447</b>	<b>(2,333)</b>
Share option compensation expensed	4.5a	-	-	77	77
Contributions of equity, net of costs	4.3	2,887	-	-	2,887
Lapsed part paid shares	4.3, 4.5a	(11)	126	(126)	(11)
<b>Balance at 31 December 2015</b>		<b>\$117,184</b>	<b>(\$109,648)</b>	<b>(\$1,938)</b>	<b>\$5,598</b>
2014	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
<b>Balance at 1 January 2014</b>		114,308	(102,520)	(2,428)	9,360
<b>Comprehensive Income</b>					
Loss for year		-	(4,474)	-	(4,474)
<b>Other comprehensive income</b>					
Exchange differences on translating operations	4.5b	-	-	78	78
Cash flow hedge	4.5c	-	-	(35)	(35)
Income tax relating to other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>(4,474)</b>	<b>43</b>	<b>(4,431)</b>
Share option compensation expensed	4.5a	-	-	49	49
Contributions of equity, net of costs	4.3	-	-	-	-
Lapsed part paid shares	4.3, 4.5a	-	-	-	-
<b>Balance at 31 December 2014</b>		<b>\$114,308</b>	<b>(\$106,994)</b>	<b>(\$2,336)</b>	<b>\$4,978</b>

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

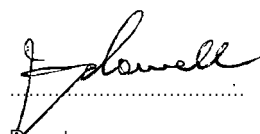


# Consolidated Statement of Financial Position

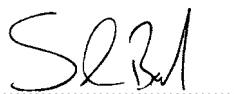
as at 31 December 2015

	Note	2015 \$000s	2014 \$000s
<b>Current Assets</b>			
Cash and cash equivalents	3.1a	<b>2,880</b>	1,196
Trade and other receivables	3.1b	<b>5,918</b>	5,310
Derivative financial instruments	6.7	<b>24</b>	-
Inventories	3.1c	<b>3,700</b>	4,674
Total current assets		<b>12,522</b>	11,180
<b>Non-Current Assets</b>			
Plant and equipment	3.2	<b>1,009</b>	880
Intangible assets	3.3	<b>5,300</b>	3,031
Total non-current assets		<b>6,309</b>	3,911
Total assets		<b>18,831</b>	15,091
<b>Current Liabilities</b>			
Trade and other payables	3.1d	<b>7,830</b>	5,333
Provisions	3.1e	<b>215</b>	259
Derivative financial instruments	6.7	<b>-</b>	4
Total current liabilities		<b>8,045</b>	5,596
<b>Non-Current Liabilities</b>			
Borrowings	4.1	<b>5,188</b>	4,507
Derivative financial instruments	6.7	<b>-</b>	10
Total non-current liabilities		<b>5,188</b>	4,517
Total liabilities		<b>13,233</b>	10,113
<b>Net assets</b>		<b>\$5,598</b>	\$4,978
<b>Equity</b>			
Contributed equity	4.3	<b>117,184</b>	114,308
Accumulated losses	4.4	<b>(109,648)</b>	(106,994)
Other reserves	4.5	<b>(1,938)</b>	(2,336)
<b>Total equity</b>		<b>\$5,598</b>	\$4,978

For and on behalf of the Board



Director  
26 February 2016



Director  
26 February 2016

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

# Consolidated Cash Flow Statement

for the year ended 31 December 2015

	Note	2015 \$000s	2014 \$000s
<b>Cash flows from operating activities</b>			
Receipts from customers exclusive of GST/VAT		<b>25,479</b>	19,972
Payments to suppliers and employees exclusive of GST/VAT		<b>(24,662)</b>	(24,567)
Interest paid		<b>(289)</b>	(141)
Interest received		<b>39</b>	39
Taxation paid		<b>(68)</b>	-
Net GST/VAT received		<b>335</b>	271
Net cash inflow / (outflow) from operating activities		<b>834</b>	(4,426)
<b>Cash flows from investing activities</b>			
Payments for plant and equipment	3.2	<b>(233)</b>	(678)
Payments for intangible assets	3.3	<b>(1,973)</b>	(1,604)
Proceeds from sale of plant and equipment		<b>2</b>	100
Net cash outflow from investing activities		<b>(2,204)</b>	(2,182)
<b>Cash flows from financing activities</b>			
Cash proceeds from ordinary and preference share issues, net of refunds and issue costs	4.1, 4.3	<b>2,876</b>	4,696
Net cash inflow from financing activities		<b>2,876</b>	4,696
<b>Net increase / (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the financial period		<b>1,196</b>	2,984
Effect of exchange rate movements on cash		<b>178</b>	124
<b>Cash and cash equivalents at end of year</b>	3.1	<b>\$2,880</b>	\$1,196

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

	2015 \$000s	2014 \$000s
<b>Reconciliation of loss for the year to net cash inflow / (outflow) from operating activities</b>		
<b>Loss for the year</b>	<b>(2,780)</b>	<b>(4,474)</b>
<b>Adjustments for:</b>		
Depreciation and amortisation	<b>399</b>	447
Impairment of plant, equipment & intangibles	<b>-</b>	55
(Gain) / loss on disposal of plant & equipment	<b>(2)</b>	2
Share based payments	<b>77</b>	49
Amortisation of borrowing	<b>681</b>	376
Change in fair value of embedded option	<b>(10)</b>	(555)
Inventory provision movement	<b>(2)</b>	(109)
Doubtful debts provision movement	<b>11</b>	(20)
Provision for warranty movement	<b>(44)</b>	(27)
Provision for restructuring movement	<b>-</b>	(195)
Net foreign exchange differences	<b>(350)</b>	(288)
(Increase) / decrease in trade and other receivables	<b>(619)</b>	2,602
Decrease / (increase) in inventories	<b>976</b>	(590)
Increase / (decrease) in trade and other payables	<b>2,497</b>	(1,699)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>\$834</b>	<b>(\$4,426)</b>

The above reconciliation should be read in conjunction with the accompanying notes.

# 1. Basis of preparation

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

## 1.1 General Information

Wellington Drive Technologies Limited (the "Company") and its subsidiaries (together the "Group") develop, manufacture, market and sell energy saving, electronically commutated (EC) motors, controllers and fans for worldwide use.

The Company is a limited liability company incorporated and domiciled in New Zealand. The Parent is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The address of its registered office is 21 Arrenway Drive, Rosedale, Auckland 0632, New Zealand.

Group financial statements are prepared and presented for Wellington Drive Technologies Limited and its subsidiaries in accordance with New Zealand Accounting Standards and Interpretations, the Financial Reporting Act 1993, the Companies Act 1993 and comply with International Financial Reporting Standards (IFRS). Separate financial statements for the Parent are no longer required to be presented in accordance with the Financial Markets Conduct Act 2013.

These consolidated financial statements have been approved for issue by the Board of Directors on 26 February 2015. The entity's owners do not have the power to amend these financial statements after issue.

## 1.2 Summary of Significant Accounting Policies

These consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

### (a) Basis of preparation

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.

#### *Entities reporting*

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

#### *Historical cost convention*

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

#### *Going concern assumption*

The Company meets its day-to-day working capital requirements out of its available cash resources. The Company does not have access to any bank borrowing facility.

Economic conditions and competitive activity create inherent uncertainty over the level of demand for the Group's products, product pricing and the successful commercialisation of new products in line with the Company's forecasts. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate without needing to seek additional funding from shareholders.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

## **(b) Principles of consolidation**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and 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 Statement of Comprehensive Income.

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

## **(c) Foreign currency translation**

### *(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's functional currency is US Dollars because its purchase and sale of product is mainly denominated in US Dollars. Subsidiaries in Turkey, Mexico and Singapore use their local currency as the functional currency.

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

### *(ii) Transactions and balances*

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

### *(iii) Foreign operations*

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

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



**(d) Critical accounting estimates**

Estimates and 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.

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

Area of estimation	Note
• Development costs – capitalisation of expenses and impairment testing	3.3
• Inventory – determining net realisable value	3.1c
• Warranty provisions – determining the provision amount	3.1e
• Doubtful debt provisions – determining net recoverable value	3.1b

## 2. Results for the year

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

### 2.1 Segment information

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

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

#### (a) Reportable segments

The Group is organised on a global basis into one operating segment - marketing, sale, manufacture and development of electric motors and associated electronics and software. The financial statements therefore reflect the results and financial position of the segment.

#### (b) Geographical segments

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

<b>Revenue from external customers by geographic areas</b>	<b>2015 \$000s</b>	<b>2014 \$000s</b>
Americas	<b>17,619</b>	10,421
Asia / Pacific (APAC)	<b>3,004</b>	2,151
Europe / Middle East / Africa (EMEA)	<b>3,949</b>	5,233
<b>Total</b>	<b>\$24,572</b>	\$17,805

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

<b>Total non-current assets</b>	<b>2015 \$000s</b>	<b>2014 \$000s</b>
Americas	<b>4</b>	-
Asia / Pacific	-	-
Europe / Middle East / Africa	<b>10</b>	8
New Zealand	<b>6,295</b>	3,903
<b>Total</b>	<b>\$6,309</b>	\$3,911

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

#### *Major Customers*

Two major customers (defined as customers representing 10% or more of revenues), each account for revenues of \$7,325,393 and \$6,533,951 of total revenues (2014: three customers each with revenues of \$3,884,000, \$3,373,000 and \$3,334,000).

## 2.2 Revenue

	2015 \$000s	2014 \$000s
Product revenue	24,543	17,804
Services revenue	29	1
	<b>\$24,572</b>	<b>\$17,805</b>

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, excluding GST / VAT, rebates and discounts and after eliminating sales within the Group.

*Sale of Goods* – sales are recognised when legal title or possession is transferred to the buyer which is usually when delivery of the goods to the customer takes place.

*Sale of services* – revenue from the provision of services is recognised when services are rendered to the buyer.

## 2.3 Other Income

	2015 \$000s	2014 \$000s
Net foreign exchange gains	568	482
Licence fees received	113	71
Grants received	8	53
Other income	2	104
	<b>\$691</b>	<b>\$710</b>

Net foreign exchange gains include \$565,000 (2014 - \$355,000) arising from the revaluation of borrowings (note 4.1).

## 2.4 Operating expenses

### (a) Employee benefits

	2015 \$000s	2014 \$000s
Wages and salaries and other short term benefits	5,076	5,563
Employee share options expense	77	49
Employee benefits	<b>\$5,153</b>	<b>\$5,612</b>

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

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

### (b) Rental and operating leases

	2015 \$000s	2014 \$000s
Rental and operating lease expenses	<b>\$283</b>	<b>\$471</b>

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 Statement of Comprehensive Income on a straight line basis over the period of the lease.

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.

<b>Operating leases</b>	<b>2015 \$000s</b>	<b>2014 \$000s</b>
Within one year	<b>275</b>	275
Later than one year but not later than five years	<b>781</b>	951
Later than five years	-	40
	<b>\$1,056</b>	\$1,266

## 2.5 Income tax expense

### Current and deferred income tax

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

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

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

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

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

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

### (a) Income tax expense

The Company and Group have unrecognised tax losses available to carry forward and offset against current year taxable income. Taxation of \$57,000 (2014: Nil) is payable in respect of some overseas subsidiaries.

## (b) Unrecognised tax losses

	2015 \$000s	2014 \$000s
Reported loss for period before tax	(2,780)	(4,474)
Non-deductible / non assessable items	712	(166)
Less unrecognised timing differences	(794)	259
Net loss for tax purposes	(2,862)	(4,381)
Losses carried forward from prior years	(93,388)	(87,786)
Adjustment of prior periods	(1,318)	(1,047)
Expired losses	-	-
Exchange adjustments	(1,113)	(174)
Losses available to carry forward to future years	(\$98,681)	(\$93,388)

Of the total consolidated losses available to carry forward to future years, \$2,947,000 (2014 - \$2,746,000) arises in the USA and is subject to their continuity requirements. USA Federal tax losses expire after 15 to 20 years, depending on when those losses were incurred. During the 2015 year no USA Federal tax losses expired (2014 - None).

## (c) Unrecognised deferred tax balances

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

	2015 \$000s	2014 \$000s
Doubtful debts	42	40
Inventory provisions	90	91
Employee benefits	54	158
Other timing differences	194	72
Tax losses to carry forward	27,559	26,149
Unrecognised net deferred tax asset	\$27,939	\$26,510

## (d) Imputation credits

The Group have no imputation credits available (2014 – \$nil) and no movements occurred in the Imputation Credit Account (2014 – \$nil).



## 2.6 Earnings per share

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

Basic EPS of a loss of 1.29 cents (2014 – loss of 3.18 cents) is calculated by dividing the loss attributable to equity holders of the Company of \$2,780,000 (2014 - (\$4,474,000)) by the weighted average number of ordinary shares in issue during the year 216,049,250 (2014 – 140,703,000).

Diluted EPS of a loss of 1.29 cents (2014 - loss of 3.18 cents) reflects any commitments the Group has to issue shares in future that would decrease EPS. The weighted average number of ordinary shares is compared with the number of shares that would have been issued assuming the exercise of share options. 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 diluted EPS for that year because the effect in that year would have been anti-dilutive:

	Number of shares	
	2015	2014
Part paid shares	8,993,524	6,941,462
US employee share options	1,058,373	673,510
Share warrants issued to East West Manufacturing LLC	-	5,300,000

The weighted average number of ordinary shares on issue for the purpose of the basic and diluted EPS calculation includes 25,211,740 preference shares (2014 - 25,211,740), being the minimum number of ordinary shares that will be issued upon their conversion (note 4.1).

### 3. Operating assets and liabilities

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

#### 3.1 Working capital

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

##### (a) Cash and cash equivalents

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

	2015 \$000s	2014 \$000s
Cash on hand and at bank	1,092	755
Call deposits	1,712	364
Short term bank deposit	76	77
	<b>\$2,880</b>	\$1,196

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

NZD	805	610
USD	1,970	508
Other	105	78
	<b>\$2,880</b>	\$1,196

##### (b) Trade and other receivables

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently measured at the amounts considered recoverable. 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 the receivable. 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, whether it has become probable that the customer will enter into bankruptcy or other financial reorganisation, whether there is an active market for that customer and the national or local economic conditions that could impact on the customer.

	2015 \$000s	2014 \$000s
Trade receivables	5,436	4,965
Provision for doubtful debts	(152)	(141)
Net trade receivables	5,284	4,824
Prepayments	361	283
VAT/GST refunds due	178	168
Income tax refund due	14	3
Other receivables	81	32
	<b>\$5,918</b>	\$5,310

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

	2015 \$000s	2014 \$000s
NZD	46	49
USD	5,495	5,192
EUR	100	48
Other	277	21
	<b>\$5,918</b>	<b>\$5,310</b>

Provision for doubtful debts		
Carrying amount at start of year	141	161
Decrease in provision	(12)	(18)
Exchange adjustment	23	(2)
Carrying amount at end of year	<b>\$152</b>	<b>\$141</b>

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

### (c) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory 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.

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

	2015 \$000s	2014 \$000s
Finished goods – at cost	3,029	3,745
Work in progress – at cost	526	867
Raw materials – at cost	467	386
Less inventory provisions	(322)	(324)
Total inventories	<b>\$3,700</b>	<b>\$4,674</b>

Certain inventories are subject to retention of title clauses.

Cost of inventories recognised as an expense and included in cost of sales \$19,790,000 (2014: \$13,815,000).

### (d) Trade and other payables

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

	2015 \$000s	2014 \$000s
Trade payables	6,927	4,515
Employee entitlements	330	611
Accrued expenses and deferred income	573	207
	<b>\$7,830</b>	<b>\$5,333</b>

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

NZD	<b>1,035</b>	1,081
USD	<b>6,651</b>	3,962
Other	<b>144</b>	290
	<b>\$7,830</b>	\$5,333

#### (e) Provisions

Provisions 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.

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.

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

	<b>2015</b> <b>\$000s</b>	<b>2014</b> <b>\$000s</b>
Warranty provision		
Carrying amount at start of year	<b>259</b>	286
Additional provisions recognised	<b>87</b>	189
Amounts used	<b>(184)</b>	(193)
Exchange adjustment	<b>53</b>	(23)
Carrying amount at end of year	<b>\$215</b>	\$259

### 3.2 Plant & 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.

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

Depreciation 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 as 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.

Plant and equipment can be analysed as follows:

	Plant & equipment \$000s	Office equipment, furniture & fittings \$000s	Total \$000s
<b>At 31 December 2013</b>			
Cost	4,707	2,148	6,855
Accumulated depreciation and impairment	(4,200)	(1,858)	(6,058)
Exchange adjustment	(177)	(195)	(372)
Net book amount	<b>\$330</b>	<b>\$95</b>	<b>\$425</b>
<b>Year ended 31 December 2014</b>			
Opening net book amount	330	95	425
Additions	537	141	678
Depreciation	(164)	(56)	(220)
Impairment	-	-	-
Disposals	(38)	(60)	(98)
Exchange adjustment	36	59	95
Closing net book amount	<b>\$701</b>	<b>\$179</b>	<b>\$880</b>
<b>At 31 December 2014</b>			
Cost	4,812	1,660	6,472
Accumulated depreciation and impairment	(3,970)	(1,345)	(5,315)
Exchange adjustment	(141)	(136)	(277)
Net book amount	<b>\$701</b>	<b>\$179</b>	<b>\$880</b>
<b>Year ended 31 December 2015</b>			
Opening net book amount	<b>701</b>	<b>179</b>	<b>880</b>
Additions	<b>215</b>	<b>18</b>	<b>233</b>
Depreciation	<b>(198)</b>	<b>(53)</b>	<b>(251)</b>
Impairment	-	-	-
Disposals	-	-	-
Exchange adjustment	<b>123</b>	<b>24</b>	<b>147</b>
Closing net book amount	<b>\$841</b>	<b>\$168</b>	<b>\$1,009</b>
<b>At 31 December 2015</b>			
Cost	<b>5,027</b>	<b>1,678</b>	<b>6,705</b>
Accumulated depreciation and impairment	<b>(4,168)</b>	<b>(1,398)</b>	<b>(5,566)</b>
Exchange adjustment	<b>(18)</b>	<b>(112)</b>	<b>(130)</b>
Net book amount	<b>\$841</b>	<b>\$168</b>	<b>\$1,009</b>

<b>Depreciation</b>	<b>2015 \$000s</b>	<b>2014 \$000s</b>
Plant and equipment	<b>198</b>	164
Office equipment, furniture & fittings	<b>53</b>	56
	<b>\$251</b>	\$220

#### **Sale of plant and equipment**

Gain / (loss) on disposal	<b>\$2</b>	(\$2)
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Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income.

#### **Capital commitments**

Capital commitments contracted for at 31 December 2015 amounted to \$130,000 (2014 - \$190,000).

### **3.3 Intangible assets**

#### **Research, development and patent costs**

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

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design 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. Development costs are capitalised once it can be demonstrated that the asset is supported by future economic benefits. 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.

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

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

Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, up to a maximum of 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.

#### **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.

### 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).

Intangible assets can be analysed as follows:

	Internally Generated Development costs \$000s	Patents \$000s	Software \$000s	Other \$000s	Total \$000s
<b>At 31 December 2013</b>					
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
<b>Year ended 31 December 2014</b>					
Opening net book amount	936	535	32	63	1,566
Additions	1,532	57	-	15	1,604
Amortisation	(139)	(65)	(20)	(3)	(227)
Disposals	-	-	-	-	-
Impairment	-	(55)	-	-	(55)
Exchange adjustment	113	25	-	5	143
Closing net book amount	\$2,442	\$497	\$12	\$80	\$3,031
<b>At 31 December 2014</b>					
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
<b>Year ended 31 December 2015</b>					
Opening net book amount	<b>2,442</b>	<b>497</b>	<b>12</b>	<b>80</b>	<b>3,031</b>
Additions	<b>1,851</b>	<b>51</b>	<b>38</b>	<b>33</b>	<b>1,973</b>
Amortisation	<b>(79)</b>	<b>(57)</b>	<b>(10)</b>	<b>(2)</b>	<b>(148)</b>
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Exchange adjustment	<b>362</b>	<b>71</b>	-	<b>11</b>	<b>444</b>
Closing net book amount	<b>\$4,576</b>	<b>\$562</b>	<b>\$40</b>	<b>\$122</b>	<b>\$5,300</b>
<b>At 31 December 2015</b>					
Cost	<b>8,377</b>	<b>1,320</b>	<b>444</b>	<b>208</b>	<b>10,349</b>
Accumulated amortisation	<b>(4,078)</b>	<b>(777)</b>	<b>(393)</b>	<b>(79)</b>	<b>(5,327)</b>
Exchange adjustment	<b>277</b>	<b>19</b>	<b>(11)</b>	<b>(7)</b>	<b>278</b>
Net book amount	<b>\$4,576</b>	<b>\$562</b>	<b>\$40</b>	<b>\$122</b>	<b>\$5,300</b>



Included within internally generated development costs is \$4,448,000 (2014: \$2,257,000) under development. This cost is not yet being amortised. An impairment assessment has been performed at 31 December 2015 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.

	2015 \$000s	2014 \$000s
<b>Amortisation and impairment</b>		
Amortisation of intangible assets	148	227
Impairment of intangible assets	-	55
<b>Research and development</b>		
Research & development costs expensed	414	251
Development time capitalised	(1,342)	(1,153)

## 4. Capital and financing costs

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

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

### 4.1 Borrowings

#### Mandatory Convertible Preference Shares

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 were recognised initially as a liability at fair value, net of issue costs incurred, and are subsequently carried at amortised cost; any difference between the proceeds (net of issue costs and the value attributed to the embedded option) 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.

	2015 \$000s	2014 \$000s
Liability at start of year	4,507	-
New issue	-	4,131
Amortisation	681	376
Liability at end of year	\$5,188	\$4,507

The proceeds from the 2014 issue were \$5,042,000. Issue costs were \$346,000 and the value attributed to the embedded option was \$565,000 so the liability at date of issue was \$4,131,000.

The effective interest rate on the liability is 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 amount of the Group's mandatory convertible preference shares is denominated in NZD.

### 4.2 Finance

	2015 \$000s	2014 \$000s
<b>Finance income</b>		
Change in fair value of embedded option (note 6.7)	10	581
Other interest income	39	13
	\$49	\$594
<b>Finance expenses</b>		
Amortisation of borrowing (note 4.1)	681	376
Preference shares coupon	252	179
Other interest expense	37	4
	\$970	\$559

### 4.3 Contributed equity

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

	2015 Shares	2014 Shares	2015 \$000s	2014 \$000s
Ordinary shares – fully paid	<b>231,684,047</b>	126,373,117	<b>117,155</b>	114,273
Ordinary shares – partly paid	<b>8,993,524</b>	6,941,462	<b>29</b>	35
US employee share options	<b>1,058,373</b>	673,510	-	-
Share warrants	-	5,300,000	-	-
Preference shares (note 4.1)	<b>25,211,740</b>	25,211,740	-	-
Total shares and options on issue	<b>266,947,684</b>	164,499,829	<b>\$117,184</b>	\$114,308

#### (a) Ordinary shares – fully paid

Opening balance of ordinary shares on issue	<b>126,373,117</b>	126,058,703	<b>114,273</b>	114,289
Issues of ordinary shares during the year:				
• June 2014 issues at 11 cents for cash	-	314,414	-	34
• May / June 2015 issues at 3 cents for cash	<b>105,310,930</b>	-	<b>3,159</b>	-
• Share issue costs	-	-	<b>(277)</b>	(50)
Ordinary fully paid shares on issue at year end	<b>231,684,047</b>	126,373,117	<b>\$117,155</b>	\$114,273

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	<b>6,941,462</b>	3,790,649	<b>35</b>	19
Issues of partly paid shares during the year:	<b>4,207,056</b>	3,150,803	<b>5</b>	16
Lapsed	<b>(2,154,994)</b>	-	<b>(11)</b>	-
Surrendered	-	-	-	-
Ordinary part paid shares on issue at year end	<b>8,993,524</b>	6,941,452	<b>\$29</b>	\$35

For further details of part paid shares see 6.2c

#### (c) US employees share options (numbers)

	2015 Share Options	2014 Share Options
Options outstanding at start of year	<b>673,510</b>	288,647
Issues of U.S. employee options during the year:	<b>384,863</b>	384,863
Lapsed	-	-
Outstanding at end of year	<b>1,058,373</b>	673,510

#### (d) Share warrants (numbers)

	2015	2014
Warrants outstanding at start of year	<b>5,300,000</b>	5,300,000
Exercised or lapsed during the year	<b>(5,300,000)</b>	-
Outstanding at end of year	-	5,300,000

The 5,300,000 share warrants issued to East West Manufacturing LLC in September 2013 lapsed unexercised in September 2015.

#### 4.4 Accumulated losses

	2015 \$000s	2014 \$000s
Opening balance	(106,994)	(102,520)
Loss for the year	(2,780)	(4,474)
Surrendered & lapsed employee share option scheme benefits	126	-
Accumulated losses at end of year	(\$109,648)	(\$106,994)

#### 4.5 Other reserves

	2015 \$000s	2014 \$000s
Share option compensation reserve	121	170
Currency translation reserve	(2,083)	(2,502)
Hedging reserve	24	(4)
	(\$1,938)	(\$2,336)

##### (a) Share Option Compensation Reserve

	2015 \$000s	2014 \$000s
Share based compensation recognised at start of year	170	121
Net compensation expensed	77	49
Surrendered & lapsed share option scheme transferred to accumulated losses	(126)	-
	\$121	\$170

##### (b) Currency Translation Reserve

	2015 \$000s	2014 \$000s
Opening balance	(2,502)	(2,580)
Movements for the year	419	78
	(\$2,083)	(\$2,502)

##### (c) Hedging reserve

	2015 \$000s	2014 \$000s
Opening balance	(4)	31
Cash flow hedge fair value gains / (losses) for the year	28	(35)
Tax on fair value gains / (losses)	-	-
	\$24	(\$4)

## 5. Risk

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

### 5.1 Key financial risks

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

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

#### (a) Financial market risk

##### *Foreign currency risk*

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

The Company's functional currency is USD. Changes in exchange rates then will result in monetary assets and liabilities denominated in currencies other than USD (the functional currency) being revalued at balance date and the resulting unrealised revaluation gain / loss recognised in the income statement. Any realised gain / loss arising from the settlement in cash of these non USD transactions recorded during the period will also be recognised in the income statement.

A sensitivity analysis of foreign exchange rate risk on the Group's monetary assets and liabilities at 31 December 2015 is provided in the table below. This shows the impact of a 10% strengthening in the USD exchange rate relative to other currencies – a positive impact on the results because NZD denominated debt will be less in USD terms.

	Carrying amount \$000s	Currencies other than USD \$000s	Profit impact \$000s	Equity impact \$000s
<b>\$000s</b>				
Monetary assets:				
Cash	<b>2,880</b>	910	(65)	(65)
Trade and other receivables	<b>5,918</b>	423	(30)	(30)
Monetary liabilities:				
Trade and other payables	<b>(7,830)</b>	(1,039)	75	75
Borrowings	<b>(5,188)</b>	(5,188)	374	374
Net impact			<u>\$354</u>	<u>\$354</u>

A weakening of the USD exchange rate relative to other currencies will have an adverse impact. 10% was chosen as a reasonable sensitivity given the historically volatile markets for foreign exchange. Amounts are shown net of income tax. All variables other than applicable exchange rates are held constant. The profit and equity impact on the same basis at 31 December 2014 was \$365,000.

The Company's reporting currency is NZD. Changes in NZD exchange rates will therefore impact the reported results. For example, a decrease in the NZD / USD exchange rate will mean higher reported revenues, gross profits and operating expenses and also higher operating assets and liabilities (including cash) as a result of the translation from functional currency to reporting currency.

The impact of a change in NZD exchange rates on the reported NZD result (excluding any gains / losses arising on financial assets and liabilities summarised above) is demonstrated in the table below. The column in the table 'NZD amount transacted in USD' reflects the proportion of the reported amounts for the 2015 year that were denominated in USD.

	Reported in NZD \$000s	NZD amount transacted in USD \$000s	If NZD / USD rate had been 0.60 \$000s	If NZD / USD rate had been 0.80 \$000s
\$000s				
Revenue	24,572	24,572	28,942	21,706
Gross profit	5,261	5,261	6,197	4,648
Operating income	691	113	708	676
Operating expenses	(7,754)	(2,576)	(8,164)	(7,418)
Loss before interest and tax	(\$1,802)	\$2,798	(\$1,259)	(\$2,094)

#### Interest Rate Risk

The Group currently has no central overdraft or debt facility.

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

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

#### (b) Credit risk

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

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.

At balance sheet date, trade receivables of \$1,146,000 were past due but not considered impaired (2014 - \$1,420,000). Of this amount \$113,000 (2014 - \$168,000) was 3 months or more overdue.

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

Cash and cash equivalents are deposited with a number of trading banks in New Zealand and overseas.

\$1,417,000 is deposited with a major NZ trading bank with a Standard and Poors rating of AA- (2014: \$687,000 AA-) and \$553,000 (2014: \$100,000) with Western Union. The remaining balance of \$910,000 (2014: \$170,000) 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 Group maintain regular forecasts of liquidity based on expected cash flows. The table below analyses the Group's financial liabilities into relevant groups based on the remaining period at the reporting date to the end of the contractual date. The amounts disclosed are the contractual undiscounted cash flows.

\$000's	2015			2014		
	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	7,639	-	-	5,291	-	-
Coupon on preference shares	126	126	126	126	126	378
	<b>\$7,765</b>	<b>\$126</b>	<b>\$126</b>	<b>\$5,417</b>	<b>\$126</b>	<b>\$378</b>

(d) Capital risk management

The Company 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 Company has not been subject to any externally imposed capital requirements during the period.

## 5.2 Key commercial risks

The Group's business is the commercialisation of new electric motor and industrial controls technology. Commercialisation of a new technology is inherently a high risk activity. In the event that the commercialisation of a new product is unsuccessful, then the Group would be required to impair related inventory, plant and equipment and previously capitalised expenses to earnings.

Other risks that the business faces:

- Regulatory or legislative changes in export markets (ie. potential changes in tariffs, taxes, market access, encouragement of energy efficiency, sugar taxes) can negatively affect the business.
- Channel or customer risks – customers do not give commitments beyond normally a 30 day window. This means that our projected sales can be materially impacted by unexpected changes in customers' markets and their demand for the Group's products. Many customers request annual pricing and terms reviews which is a competitive process that can, and does result in volumes being won and lost. As detailed in note 2.1(b), two major customers in 2015 account for \$13.9m of revenue which represents 56% of the total revenue for the year.
- Competition risks – there are a number of large, well-resourced and capable global competitors operating in the same markets and those competitors have products that compete directly with the Group's products. Competitors could develop and release products that are superior or could price their products at a point that the Group is unable or unwilling to match.
- Product risks – the nature of design and manufacturing processes is such that it is not possible to achieve 100% defect free product performance. There are policies and practices in place to ensure the quality of delivered products is at the highest standard however customer warranty claims will arise from time to time. The costs of meeting any future warranty claim could be material depending on the nature of the claim (ie. whether it is a design problem or a manufacturing problem) and the volume of product affected and its location. The nature and use of the products in their applications and their expected durability in the field means that any quality defects may not be raised for some time after they are placed in service. This makes it more likely that substantial numbers of affected products will have been supplied to customers at the time any defect is identified. Customers are also increasingly requiring extended warranty periods as a condition of supply.
- Intellectual property risks – some of the Group's products / technologies are covered by patents, patent applications, confidentiality agreements etc. However competitors, customers and our manufacturing suppliers could circumvent our intellectual property protection (legally or illegally) requiring the Group to take steps to protect its interests. There is also a risk that the Company could through the development of new products inadvertently breach patents held by other parties.
- People risks – the loss of key management skills, sales and / or product development staff could have a negative impact on the Group's operations.

These commercial risks are monitored and managed by the Company's management.



## 6. Other information

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

### 6.1 Subsidiaries

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	2015	2014
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.

### 6.2 Related party transactions

#### (a) Directors

The names of persons who are directors of the Company are on page 12.

#### (b) Key management personnel and compensation

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

	2015 \$000s	2014 \$000s
Salaries, fees and other short term benefits	1,525	1,670
Share based remuneration	69	44
Directors' remuneration	174	174
Total	\$1,768	\$1,888

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 6.2(c)) for each of the financial years 2013, 2014 and 2015, subject to agreed performance hurdles.

#### (c) Employee share based remuneration

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 part paid shares or options are recognised as an expense over the vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the partly paid share proceeds are received or options are exercised.

#### Ordinary shares – partly paid

Issue Date	Earliest date to exercise	Expiry exercise date	Share hurdle price (cents)	Partly paid share price (cents)	Balance payable on exercise (cents)	Outstanding at 2015 (numbers)	Outstanding at 2014 (numbers)
6 Dec 2011	6 Dec 2013	6 Dec 2015	25.56	25.56	25.06	-	1,347,329
15 Apr 2013	15 Apr 2015	15 Apr 2017	17.25	17.25	16.75	-	807,665
24 Jun 2013	24 Jun 2016	24 Jun 2018	16.29	16.29	15.79	<b>1,635,665</b>	1,635,665
18 Jun 2014	18 Jun 2016	18 Jun 2018	14.22	14.22	13.72	<b>1,260,587</b>	1,260,587
23 Jul 2014	23 Jul 2017	23 Jul 2019	14.73	14.73	14.23	<b>1,890,216</b>	1,890,216
1 Jul 2015	1 Jul 2017	1 Jul 2019	5.21	5.21	5.11	<b>2,316,840</b>	-
1 Jul 2015	1 Jul 2018	1 Jul 2020	5.65	5.65	5.53	<b>1,890,216</b>	-

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 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. 2% of the issue price is required to be paid on issue of the part-paid shares (\$0.005 per share before 2015). 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, 1,260,587 part paid shares in June 2014 and a further 2,316,840 shares in 2015 that have a two year vesting period. The shares issued in 2011 and 2013 have now lapsed and the part payment repaid.

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:

	2015 issue	2014 issue	2013 issue
• Market price or "hurdle price" required to enable the partly paid shares to be exercised:	<b>5.21 – 5.65 cents</b>	14.22 - 14.73 cents	16.29 -17.25 cents
• Expected volatility of the Company's shares:	<b>43.4%</b>	46.57%	52.7%
• Risk-free interest rate:	<b>2.97 – 3.04%</b>	3.63 - 3.87%	2.87%
• Expected term:	<b>2 – 3 years</b>	2 - 3 years	2 - 3 years

### U.S. employee share options

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 2015 (numbers)	Outstanding at 2014 (numbers)
24 Jun 2013	24 Jun 2017	16.9	<b>288,647</b>	288,647
23 Jul 2014	23 Jul 2018	14.3	<b>288,647</b>	288,647
21 Aug 2014	21 Aug 2018	12.2	<b>96,216</b>	96,216
1 Jul 2015	1 Jul 2019	5.59	<b>384,862</b>	-

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

	2015 issue	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:	<b>5.59 cents</b>	12.2 – 14.3 cents	16.9 cents
• Expected volatility of the Company’s shares:	<b>43.4%</b>	46.57%	52.7%
• Risk-free interest rate:	<b>3.04%</b>	3.87%	2.87%
• Expected term:	<b>3 years</b>	3 years	3 years

### 6.3 Contingencies

There are no material contingent liabilities or assets. Last year the Company had been notified of claims in respect of discontinued ventilation motor products. Those claims were settled in the 2015 year.

### 6.4 Financial instruments by category

	2015 \$000s	2014 \$000s
<b>Assets per Statements of Financial Position</b>		
<b>Loans and Receivables</b>		
Trade and other receivables	<b>5,365</b>	4,856
Cash and cash equivalents	<b>2,880</b>	1,196
<b>Derivatives used for hedging (at fair value)</b>		
Derivative financial instruments	-	-
	<b>\$8,245</b>	\$6,052
<b>Liabilities per Statements of Financial Position at amortised cost</b>		
Trade and other payables	<b>7,830</b>	5,333
Borrowings	<b>5,188</b>	4,507
<b>Derivatives used for hedging (at fair value)</b>		
Derivative financial instruments	-	4
<b>At fair value</b>		
Embedded option	-	10
	<b>\$13,018</b>	\$9,854

## Fair value estimation

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

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 6.7a.

## 6.5 Other disclosures

<b>Auditors remuneration</b>	<b>2015 \$000s</b>	<b>2014 \$000s</b>
PricewaterhouseCoopers:		
- Audit of financial statements of the Group	<b>85</b>	90
- Procedures over interim financial statements of the Group	<b>6</b>	6
Audit of subsidiaries by other auditors	<b>7</b>	8
Total remuneration for audit services	<b>\$98</b>	\$104

## 6.6 New accounting standards

### *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 2016 and have not been applied in preparing these financial statements

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 2018 and earlier application is permitted. The Group is assessing the impact of NZ IFRS 15.

IFRS 16, 'Leases', which replaces the current guidance in IAS 17, was published by the International Accounting Standards Board (IASB) in January 2016. The standard is yet to be issued by the External Reporting Board in New Zealand. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'. The group intends to adopt IFRS 16 on its effective date and has yet to assess its full impact.

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.

## 6.7 Derivative financial instruments

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 this note.

Movements on the hedging reserve in shareholders' equity are shown in note 4.5. 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 Statement 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 Statement of Comprehensive Income within 'revenue'. The gain or loss relating to the ineffective portion is recognised in the Statement 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. 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 Statement 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 Statement of Comprehensive Income within 'other income'.

	2015 \$000s	2014 \$000s
Option embedded in the preference shares	-	(10)
Forward foreign exchange contracts	24	(4)
Asset / (liability) at end of year	\$24	(\$14)

*(a) Option embedded in the preference shares*

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".

	2015 \$000s	2014 \$000s
Liability at start of year	(10)	-
New issue (note 4.1)	-	(565)
Gains recognised in finance income (note 4.2)	10	581
Exchange adjustments	-	(26)
Liability at end of year	-	(\$10)

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 Statement of Comprehensive Income in the following year when the contract is settled.



## ***Independent Auditors' Report***

to the shareholders of Wellington Drive Technologies Limited

### ***Report on the Consolidated Financial Statements***

We have audited the consolidated financial statements of Wellington Drive Technologies Limited ("the Company") on pages 15 to 46, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of movements in equity and the consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements that include significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 December 2015 or from time to time during the financial year.

### ***Directors' Responsibility for the Consolidated Financial Statements***

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements 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'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 consolidated financial statements.

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

We are independent of the Group. Other than in our capacity as auditors, we have no relationship with, or interests in, the Group.





## ***Independent Auditors' Report***

Wellington Drive Technologies Limited

### ***Opinion***

In our opinion, the consolidated financial statements on pages 15 to 46 present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

### ***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 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.

*PricewaterhouseCoopers.*

Chartered Accountants  
26 February 2016

Auckland

## 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:

	2015	2014
Mr T. Nowell	<b>\$50,000</b>	\$50,000
Mr S. R. Beck	<b>\$30,000</b>	\$29,833
Dr L. Jacobs	<b>\$30,000</b>	\$29,833
Mr G. Pausch <sup>1</sup>	<b>\$30,000</b>	\$30,000
Mr J. McMahon <sup>2</sup>	<b>\$30,000</b>	<sup>3</sup> \$5,178
Mr S. J. Mander <sup>4</sup>	<b>\$ -</b>	\$29,833

Note

1. Fees for Mr G. Pausch are paid to Board Advisory Services Ltd.

2. Fees for Mr J. McMahon are paid to Meta Capital Ltd.

3. Mr J. McMahon was appointed a director during 2014 year. He earned a pro-rated amount of fees from the date of his appointed to 31 December 2014.

4. Mr Mander retired as a director on 31 December 2014.

### 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 2015 was \$51,975 (2014 - \$48,787).
- Directors' Share Transactions – In May 2015 pursuant to a renounceable rights share offer dated 14 April 2015: interests associated with Tony Nowell were issued 173,958 ordinary shares; interests associated with Shawn Beck were issued 464,579 ordinary shares; interests associated with John McMahon were issued 7,000,000 ordinary shares; and Gottfried Pausch acquired 1,000,000 ordinary shares. 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 - In May 2015 key management were issued 7,487,866 ordinary shares pursuant to a renounceable rights share offer dated 14 April 2015; In July 2015 key management were issued 3,663,859 part paid ordinary shares and 288,647 US Share Options; In 2015, 2,154,994 part paid ordinary shares lapsed and the initial part payment of \$10,775 was repaid to key management.

Note Key management personal include the Directors, the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO. For the purposes of these disclosures directors are disclosed separately to other key management.

- 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 2015		31 December 2014	
	Total Relevant Interest	Direct	Total Relevant Interest	Direct
Mr T. Nowell	<b>262,708</b>	-	88,750	-
Mr S. R. Beck	<b>842,074</b>	-	377,495	-
Mr J. McMahon	<b>9,055,285</b>	-	2,055,285	-
Mr G. Pausch	-	<b>1,000,000</b>	-	-
Convertible preference shares				
Mr T. Nowell	<b>17,750</b>	-	17,750	-
Mr J. McMahon	<b>911,057</b>	-	911,057	-

Notes: Details of the movements in the shareholdings of directors are provided above under Interested Transactions.

## 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	
	2015	2014
\$100,000 - \$109,999	<b>1</b>	7
\$110,000 - \$119,999	<b>5</b>	-
\$120,000 - \$129,999	<b>2</b>	2
\$130,000 - \$139,999	<b>2</b>	1
\$150,000 - \$159,999	-	1
\$160,000 - \$169,999	<b>1</b>	-
\$190,000 - \$199,999	<b>2</b>	3
\$200,000 - \$209,999	-	1
\$210,000 - \$219,999	<b>1</b>	1
\$220,000 - \$229,999	<b>1</b>	-
\$260,000 - \$269,999	<b>1</b>	1
\$270,000 - \$279,999	-	1
\$290,000 - \$299,999	<b>1</b>	-
\$450,000 - \$459,999	<b>1</b>	-
\$490,000 - \$499,999	-	1

## NZX Waivers

In accordance with NZ Stock Exchange Listing Rule 10.5.3(f), the following waiver was granted by the NZ Exchange during the year ended 31 December 2015:

- Waiver dated 15 April 2015 and amended 5 May 2015 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.

## 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 horizontal dotted line.

T. Nowell, CNZM  
Chairman  
22 March 2016

# Shareholder Information

## Shareholders

As at 31 December 2015 there were 2,438 shareholders holding 231,684,047 fully paid ordinary shares and 230 shareholders holding 25,211,740 convertible preference shares.

## Share Issues

In April 2015 the Company issued a 5 for 6 Renounceable Rights Share Offer for up to 105,310,930 ordinary shares at an issue price of 3 cents each. The Offer was underwritten. In May 2015, 81,149,671 shares were issued pursuant to the Offer, raising \$2.43 million before costs.

At the Annual Meeting of Shareholders in June 2015, shareholders approved the issue of the balance of the 5 for 6 Renounceable Rights Share Offer to the underwriter, SuperLife. Following the meeting 24,161,259 ordinary shares were issued raising \$725,000 before costs.

Further details of these share issues can be found in note 4.3 on page 36.

## 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 9 March 2016:

21 largest shareholders	Ordinary Shares	Convertible Preference Shares <sup>2</sup>
1. SuperLife Trustee Nominees Ltd	58,333,239	13,411,580
2. N.Z. Central Securities Depository Ltd <sup>1</sup>	29,470,521	3,122,911
3. East West Manufacturing LLC	19,433,333	-
4. Investment Custodial Services Ltd	9,845,875	1,781
5. Wairahi Trust	9,400,000	-
6. ASB Nominees Ltd (Account 574233)	9,055,285	911,057
7. Graham Trustees Ltd	8,126,686	372,000
8. SuperLife Trustee Nominees Ltd (Gemino Account)	5,460,809	4,609,559
9. Flynn No 2 Trustees Ltd	4,874,291	-
10. R.D. Armstrong	4,685,512	-
11. Gurkha Trust	4,360,220	-
12. Waikiwi Trust	3,015,629	-
13. ASB Nominees (Account 317485)	2,000,000	30,000
14. G. Allen	1,980,897	19,231
15. Tane Nui Family Trust	1,650,000	-
16. H. D. Milliner	1,589,277	38,462
17. Rivendale Trust	1,486,846	-
18. B.D. Lobb	1,310,384	62,077
19. FNZ Custodians Ltd	1,246,404	13,726
20. R. & S. Jackson Family Trust	1,000,000	50,000
21. G. Pausch	1,000,000	-

Note 1. N.Z. Central Deposit Securities Depository Limited hold shares on trust for 11 different shareholders. The largest of these are: N.Z. Permanent Trustees Ltd – 9,467,948 shares; TEA Custodians Ltd – 6,518,606 shares; Accident Compensation Corporation – 4,632,804 shares; JPMorgan Chase Bank NA – 3,008,007 shares; BNP Paribas Nominees (N.Z.) Ltd – 1,970,383 and 1,468,944 shares; and National Nominees N.Z. Ltd – 1,557,599 shares.

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

## Distribution of Equity Securities

Size of Holdings (at 9 March 2016)			Shareholders		Fully Paid Ordinary Shares	
			Number	%	Number	%
1	-	999	1,018	41.81	345,960	0.15
1,000	-	1,999	246	10.10	328,681	0.14
2,000	-	4,999	343	14.09	1,070,835	0.46
5,000	-	9,999	227	9.32	1,576,459	0.68
10,000	-	49,999	379	15.57	8,335,219	3.60
50,000	-	99,999	79	3.24	5,092,962	2.20
100,000	-	499,999	101	4.15	21,292,514	9.19
500,000	-	999,999	21	0.86	14,316,209	6.18
over		1,000,000	21	0.86	179,325,208	77.40
			2,435	100.00	231,684,047	100.00

2,311 (or 94.9%) shareholders, holding 203,577,304 shares (or 87.9%) 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 <sup>#</sup>	Date of Notice
SuperLife Trustee Nominees Ltd <sup>*</sup>	65,187,577	19 Jun 2015
Harbour Asset Management Ltd	13,610,157	18 Dec 2015
East West Manufacturing LLC	10,600,000	17 Sep 2013

<sup>#</sup> 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.

<sup>\*</sup> Disclosure made is for SuperLife Trustee Nominees Ltd, SuperLife Ltd, MCA NZ Ltd and Ballynagarrick Investments Ltd.

During the year Hunter Hall Investment Management Ltd ceased to be a Substantial Security Holder.

## Shareholder Enquires

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the Directory on page 57. 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](mailto: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](mailto:info@wdtl.com) and advise us of your email address. Your email details will be kept confidential.

Announcements are also posted on our website [www.wdtl.com](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 12.

## 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 49 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.

### Health and Safety

Wellington is committed to maintaining a safe and healthy workplace and believes all accidents are preventable. To achieve this company has a Health and Safety Committee that meets monthly and reports to the Board. The Committee is made up of a mix of senior management and staff from key operational areas. The Committee strives to: maintain and continually improve our Health and Safety systems; proactively identify hazards and take all steps to eliminate or mitigate these; consult and actively promote participation in Health and Safety matters throughout the Company.

### 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 2015	Male	Female	Total
All directors	4	1	5
	80%	20%	100%
Officers	8	-	8
	100%	-	100%
31 December 2014			
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.

## 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*  
 Ron Jackson, *Secretary*

### Phone/Fax

Ph: 64-9-477 4500  
 Fax: 64-9-479 5540

### Internet

Website: [www.wdttl.com](http://www.wdttl.com)  
 Email: [info@wdttl.com](mailto:info@wdttl.com)

### Addresses

21 Arrenway Drive  
 Rosedale, Auckland 0632, New Zealand  
 PO Box 302-533, North Harbour  
 Auckland 0751, New Zealand

### Registered Office

21 Arrenway Drive  
 Rosedale, Auckland 0632, New Zealand

### Auditor

PricewaterhouseCoopers  
 188 Quay Street, Auckland 1142, New Zealand

### Banker

Bank of New Zealand

### Share Registry

Computershare Investor Services Ltd,  
 Private Bag 92119, Auckland 1142  
 New Zealand



Annual Report 2015

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