

Wellington

Interim Report

June 2020



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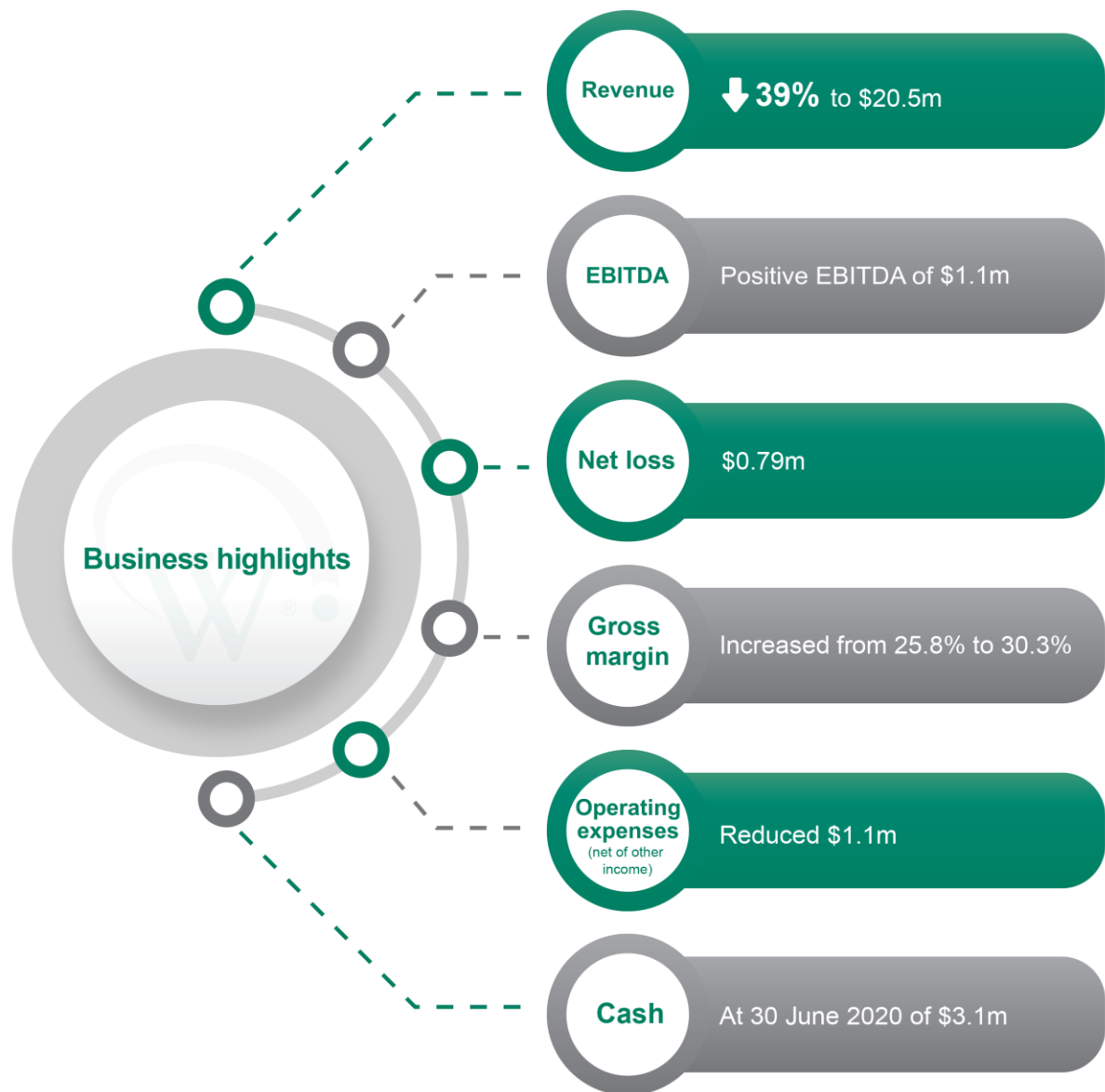
There are statements in this document that are “forward-looking statements”. As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations, the markets in which it competes and other factors (some of which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

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

References to the Company are to Wellington Drive Technologies Limited

Wellington’s financial year end is 31 December.

Business highlights



Chairman and CEO Report

Late in the first quarter of 2020 Wellington began to see the initial impact of the COVID-19 pandemic and acted quickly to manage what began as supply chain disruption and, subsequently developed into a slowing of customer demand. Many of the Company's customers are in the Americas, a region that is currently being hit hard by the pandemic

The focus from late in quarter one has been to prepare for, and manage through, the impact of COVID-19 on Wellington's business. The Company has firstly aimed to ensure the safety of staff, suppliers and customers, and has then taken operational decisions and actions to manage the expected subsequent economic impact. The key objective is to maintain Wellington's core operational capabilities and new product pipeline options, so the Company is ready to resume the positive performance trend seen in recent years, once customers start to come back online.

Results for the first half reflect both the significant weakening of customer demand in the second quarter, plus actions taken to mitigate the impacts of COVID-19, while maintaining core capability and key customer relationships.

Metric \$	2020	2019	Change
Revenue	\$20.5m	\$33.3m	-38.5%
<i>Wellington Connect™ IoT revenue</i>	\$8.0m	\$13.5m	-40.6%
<i>ECR® 2 motor revenue</i>	\$7.6m	\$11.2m	-32.0%
<i>ECR legacy motor revenue</i>	\$4.2m	\$7.6m	-45.3%
Gross profit	\$6.2m	\$8.6m	-27.6%
Gross margin %	30.3%	25.8%	+4.5%
Operating expenses net of other income	\$5.1m	\$6.1m	-17.2%
EBITDA ¹	\$1.14m	\$2.45m	-53.6%
EBIT	-\$0.55m	\$1.27m	-143.3%
Profit (loss)	-\$0.79m	\$0.72m	-\$1.51m
Operating cash flows	\$0.72m	\$1.11m	-34.8%

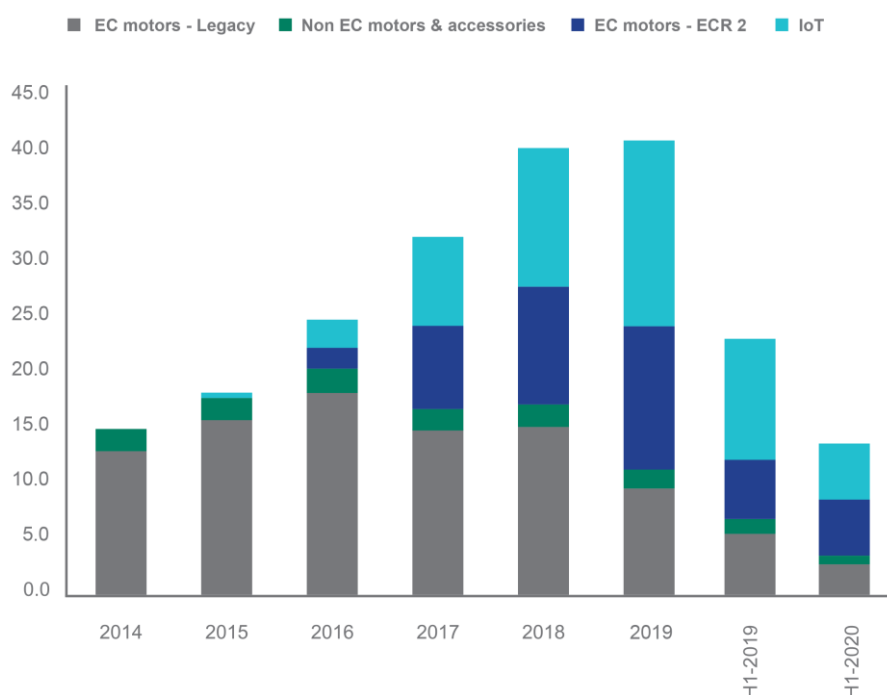
Note 1: EBITDA (i.e. Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. The Company considers that it is a useful financial indicator because it avoids the distortions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

Revenue

Revenue for the first half was \$20.5m, a 39% decrease compared to the same period last year. The shortfall occurred in the second quarter and came entirely from COVID-19 related reductions in customer demand, related country and customers' factory closures and reductions in equipment capital spend by major food and beverage brands.

First quarter performance was an improvement on last year as the Company successfully managed through the initial supply chain challenges caused by COVID-19. The second quarter, however, was severely impacted. Revenue for Q2-2020 was \$5.1m compared to \$17.5m for the same quarter in 2019, a 71% decrease.

Revenue by business line (US\$m)



COVID-19 related demand reductions have impacted all products. Wellington's ECR2 motor and IoT products represent 74% of second half revenues compared to 73% for the same period last year.

Wellington Connect IoT

Revenue billings from Connect IoT products and services, including Connect SCS hardware, data services and iProximity software was \$8.0m compared to \$13.5m the prior year. Invoicing of IoT data services decreased 51% from \$1.7m to \$0.8m.

\$0.6m of data billings were recognised for the half year compared to \$0.4m for the same period last year. Data services are multi-year contracts and revenue is recognised progressively over

the term of the contract, typically from five to ten years. The amount of unrecognised IoT data services revenue held on the balance sheet on 30 June 2020 was \$4.8m.

The Company continued to successfully market its iProximity digital marketing solutions, including responding to several RFQ's on point of sales connectivity and smart restaurant menu's using its new Q-TAG, QR-Code / Near Field Communications (NFC) products.

Wellington ECR motors

Wellington shipped 420,000 ECR motors in the first half, down 44%. Around 60% of these motors were the high performing ECR2 motor. Wellington has recently won new supermarket business in Turkey and the UK for its ECR2 Fanpack product, a high-performance fan assembly specifically designed for supermarket applications, with 25,000 units shipped year to date, a 308% increase over 2019.

Sales regions

Americas

Wellington's revenue for the Americas region was \$16.3m, a 44% decline which all occurred in the second quarter. There are early indications that demand in the USA is starting to recover, with steady demand for the Company's medical refrigeration motor product from customers not directly related to beverage coolers. Demand in Latin America remained at lower than normal levels as the majority of Wellington's beverage cooler manufacturing customers are running significantly reduced operations.

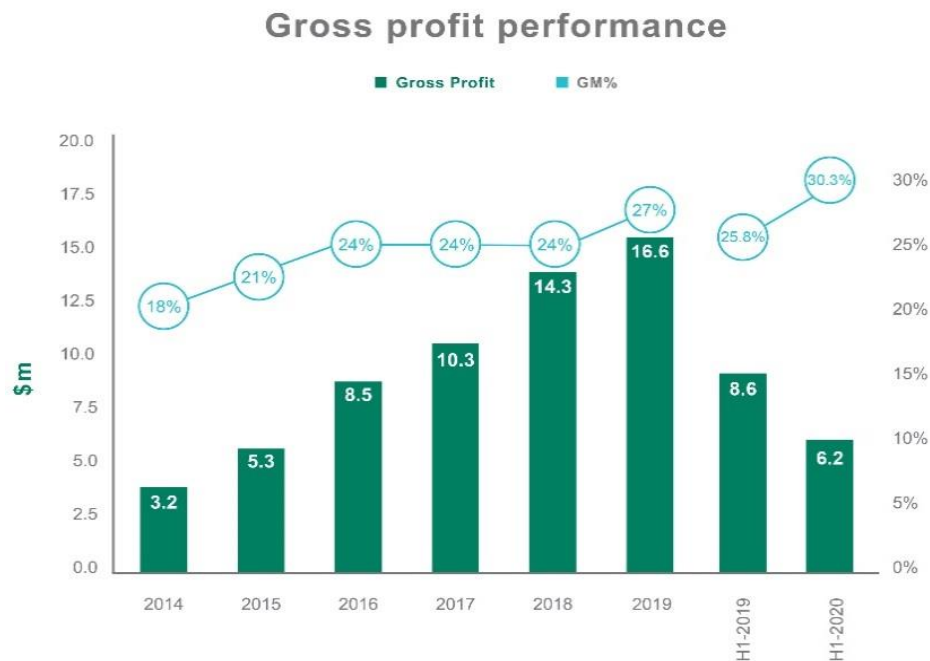
Asia Pacific (APAC) and EMEA (Europe, Middle East and Africa)

Asia-Pacific revenue was \$1.7m, consistent with first half 2019. The Company saw continued steady first-half demand from its Australasian and Chinese customers.

Wellington was pleased to see a long time South East Asian customer, which historically only purchased old technology shaded pole motors, starting to implement EC motor technology in a new cooler application.

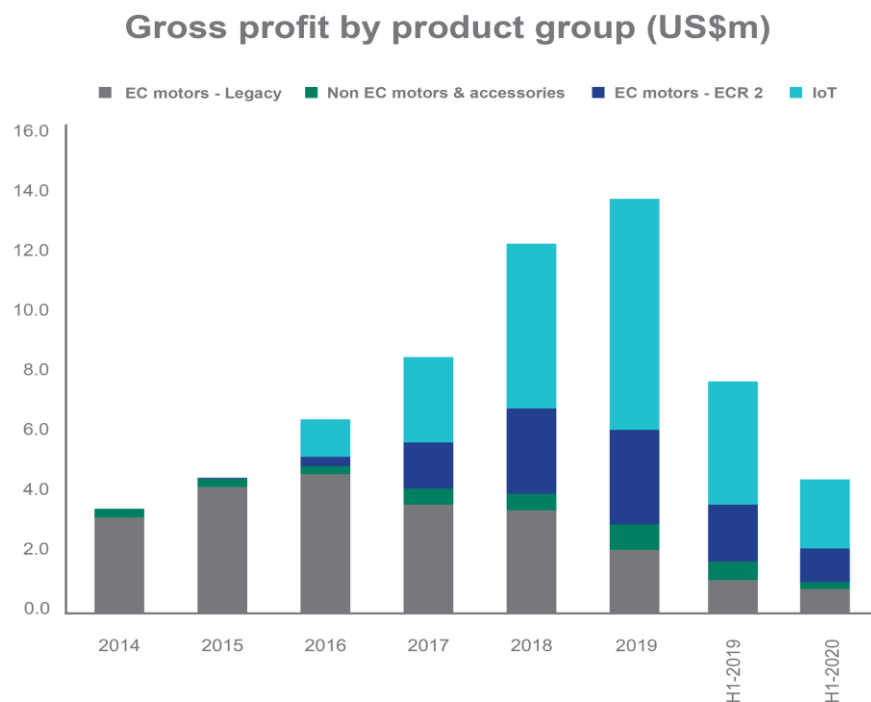
EMEA region revenue was \$2.4m, also consistent with 2019, with increases in supermarket business in Turkey and the launch of Connect SCS business for a major beer brand in its African market. These increases were offset by COVID-19 related reductions from Wellington's Western European customer base.

Gross margin and gross profit changes



Gross profit reduced by \$2.4m to \$6.2m solely caused by lower revenues. Gross margin improved to 30.3% from 25.8% reflecting the impact of higher margin data and iPX revenue recognition, reduced volume related customer rebates and planned unit cost reductions.

IoT solutions contributed 57% of gross profit with ECR2 motors at 24% and legacy EC motors at 14%.



Operating costs

Operating costs for the period amounted to \$5.7m, compared to \$6.1m for the same period in 2019

Prior to the COVID related hiring freeze, the Company was continuing to invest in new growth-related skills, and January and March period saw nine new staff added, bringing the total staff numbers to 95, compared to 86 at 30 June 2019.

In May 2020 the Company agreed a cost reduction program with directors and staff, resulting in a total salary and board fees reduction of \$1.6m for the balance of 2020.

The Company received a total of \$0.7m in wage and salary support from the New Zealand government, \$0.1m under the US Paycheck Protection Program and received payments under Australian and Singapore wage support programs. These payments are in respect of periods through to August 2020 and accordingly \$0.6m has been recognised in other income in respect of these programs. Net operating costs after deducting other income was \$5.1m compared to \$6.1m for the comparable period last year.

Profit performance

EBITDA¹ for the first half was \$1.1m compared to \$2.4m for the same period in 2019. This includes a \$0.6m gain arising from a change in fair value of the contingent consideration payable for the acquisition of iProximity Pty Limited (fair value change). EBITDA¹ excluding this fair value change was \$0.5m.

The Company recorded a net loss for the period of \$0.8m, down \$1.5m compared to the same period last year. This result for the first half was after a \$0.5m charge for the impairment of previously capitalised patent and development costs.

COVID-19 actions

Wellington's first priority was to ensure the safety of its staff and all of its stakeholders. The Wellington team recognised early in the pandemic the need to enhance its already strong health and safety process. The Company implemented a range of new health and safety policies in all its offices, following local government and health authority guidelines. These included complete travel bans, remote working, social distancing, gloves and masks, hand hygiene equipment and self-quarantine processes.

Wellington also moved quickly to reduce costs and manage its cashflow in response to COVID-19, implementing a broad range of measures:

- a hiring freeze from March for the balance of 2020
- international travel was halted, even when allowed by certain countries
- deferred \$2m of capex spend, whilst maintaining investment in critical new products such as Connect Monitor, Connect Network and SCS series 2
- negotiated extended payment terms with major suppliers
- applied for and received wage support where available and eligible in countries that the Company employs staff
- directors, the CEO and staff all agreed to salary reductions ranging from 100% for the Chairman, 50% for other directors, 30% for the CEO, 25% for senior executives and 10% to 20% for other staff.
- furloughs and alternative work arrangements for some staff.

The board and management are continually reviewing financial scenarios and actions that may be necessary as the Company manages through the ongoing COVID-19 economic impact on its customers and the countries where it does business.

Working capital

Operating cash inflows for the six months amounted to \$0.7m. Investing cash outflows amounted to \$1.7m, meaning a net cash outflow before financing activities of \$1.0m (2019 cash outflow of \$0.5m). Trade and other receivables reduced \$4.9m and trade and other payables reduced by \$4.1m compared to 31 December 2019.

The second quarter saw significantly lower trading volumes and as the pandemic developed in the Americas, it increasingly appeared this trend would continue into the third and possibly fourth quarter, resulting in a significantly disrupted and lower-than-normal revenue year. On 1 May 2020 the Company announced a number of cost reduction actions and that it was exploring a range of further initiatives to support it through the period of lower revenues. Through the second quarter the Company delivered the following capital initiatives:

- Negotiated extended payment terms with major suppliers
- negotiated a \$0.5m increase in its bank trade finance facility (from \$2.0m to \$2.5m) and during the period the Company borrowed an additional \$0.5m under this facility.
- In June 2020, the Company announced it was launching a pro-rata 1:3 rights issue to raise \$5.4m. The issue was well supported and the proceeds, received in July, is expected to enable the Company to operate through the balance of 2020 and into 2021, in conjunction with continued cost control actions and assuming a moderate level of market and revenue recovery.

Cash at 30 June 2020 was \$3.1m compared to \$3.5m at 31 December 2019. The amount owing under the bank trade finance facility at 30 June 2020 was \$2.1m compared to \$1.4m at 31 December 2019.

Marketing and product development

The Company's development activities continued during the NZ COVID-19 lockdown, with the launch of new Connect IoT solutions expected later in 2020 and revenue contribution commencing in 2021. The development team is also expanding the ECR2 motor range with the launch of its higher powered ECR2+ motor expected early in 2021, for display case and food service refrigeration applications.

Wellington's product roadmap includes broadening its IoT hardware to include connected devices for retrofit applications, cellular based technologies for applications that require constant connectivity and Bluetooth beacons for marketing applications. Several new user applications, including mobile apps and software development projects are underway to support customers as they launch their new consumer interactive coolers and to enter new markets such as medical, ice cream freezers and food service equipment.

Several early partnership discussions are underway with the goal of expanding the Company's IoT product portfolio and market opportunities in food and beverage coolers. New product marketing programmes have been launched to support the Company's product strategy, including a comprehensive online marketing campaign for its ECR2 motor in the US market, with a focus on medical refrigeration and food service equipment manufacturers.

Governance

Gottfried Pausch, previously a non-executive director, has assumed an up to two days a week interim role as Auckland-based Executive Director. Mr Pausch is assisting the New Zealand team as they work through COVID-19 strategies and look for new improvement opportunities and strategies. This is an interim arrangement until the CEO and management team are able to more freely travel to customers and global offices and there is more clarity around post-COVID market conditions.

Greg Allen continues as Group CEO, reporting to the Board, maintaining responsibility for leadership of the global Wellington organisation and the Company's overall results.

2020 outlook

The Company's customers are still impacted by regional and government responses to COVID-19 and to most food and beverage brands deferring equipment capital expenditure decisions.

The Company expects third quarter revenue at similar levels to the second quarter, but it is still too early to form a view on likely volumes for the fourth quarter and 2021. Accordingly, the Company maintains its position that no revenue or profit guidance can be provided.

Wellington continues to focus on a number of priorities to effectively manage through COVID-19 and ensure the Company emerges in a strong position:

- Defer and minimise operating costs and capital expenditure to preserve cash.
- Retaining viable product development and sales capability to enable resumption of business on the basis that operating conditions begin to normalise during the fourth quarter of 2020.
- Continuing to develop and launch critical new IoT hardware and software products to ensure increased revenue options once demand normalises.
- Strengthen marketing activities for Wellington's solutions in new markets and with new customers.

As operating conditions in Wellington's various markets continue to evolve, the Board will amend its strategy and focus to seek out revenue opportunities and manage for risk and stakeholder value.

Consolidated and Condensed Interim Statement of Comprehensive Income

	Note	Six months ended Unaudited 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended Audited 31 Dec 2019 \$000s
Revenue	2.1,2.3	20,484	33,314	61,719
Cost of sales		(14,270)	(24,731)	(45,085)
Gross profit		6,214	8,583	16,634
Other income	2.4	623	8	18
Operating expenses	2.5	(5,701)	(6,144)	(12,433)
Earnings before interest, taxation, depreciation, amortisation and impairment		1,136	2,447	4,219
Depreciation	3.5	(328)	(272)	(585)
Amortisation	3.6	(901)	(768)	(1,800)
Impairment	3.6	(456)	(139)	(323)
(Loss) / profit before interest and taxation		(549)	1,268	1,511
Finance income	4.2	6	14	19
Finance expenses	4.2	(228)	(520)	(890)
(Loss) / profit before income tax		(771)	762	640
Income tax expense		(16)	(40)	(192)
(Loss) / profit for the period		(787)	722	448
Other comprehensive income:				
<i>Items that may be reclassified subsequently to the profit or loss:</i>				
Exchange differences on translating operations		(121)	(60)	(322)
Other comprehensive loss for the period		(121)	(60)	(322)
Total comprehensive (loss) / income for the period		(\$908)	\$662	\$126
(Loss) / profit for the period attributable to the Owners of the Company		(\$787)	\$722	\$448
Total comprehensive (loss) / income attributable to the Owners of the Company		(\$908)	\$662	\$126
Basic earnings per share – cents	2.6	(0.24)	0.28	0.17
Diluted earnings per share – cents	2.6	(0.24)	0.25	0.16

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

Consolidated and Condensed Interim Statement of Movements in Equity

	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
Unaudited for the six months ended 30 June 2020					
Equity at beginning of period		130,228	(114,738)	(2,383)	13,107
Comprehensive income:					
Loss for the period		-	(787)	-	(787)
Other comprehensive income:					
Exchange differences on translation operations		-	-	(121)	(121)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(787)	(121)	(908)
Share option compensation expensed		-	-	-	-
Contributions of equity net of costs	4.3	54	-	-	54
Equity at 30 June 2020		\$130,282	(\$115,525)	(\$2,504)	\$12,253
Unaudited for the six months ended 30 June 2019					
Equity at beginning of period		123,627	(115,186)	(2,067)	6,374
Comprehensive income:					
Income for the period		-	722	-	722
Other comprehensive income:					
Exchange differences on translation operations		-	-	(60)	(60)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	722	(60)	662
Share option compensation expensed		-	-	4	4
Contributions of equity net of costs		428	-	-	428
Equity at 30 June 2019		\$124,055	(\$114,464)	(\$2,123)	\$7,468

Consolidated and Condensed Interim Statement of Movements in Equity - continued

	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
Audited for year ended 31 December 2019					
Equity at beginning of period		123,627	(115,186)	(2,067)	6,374
Comprehensive income:					
Income for period		-	448	-	448
Other comprehensive income:					
Exchange differences on translation operations		-	-	(322)	(322)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	448	(322)	126
Share option compensation expensed		-	-	6	6
Contributions of equity net of costs		6,601	-	-	6,601
Equity at 31 December 2019		\$130,228	(\$114,738)	(\$2,383)	\$13,107

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

Consolidated and Condensed Interim Statement of Financial Position

	Note	Unaudited 30 Jun 2020 \$000s	Unaudited 30 Jun 2019 \$000s	Audited 31 Dec 2019 \$000s
Current Assets				
Cash and cash equivalents		3,062	1,835	3,459
Trade and other receivables	3.1	9,933	19,240	14,791
Derivative financial instruments		64	-	56
Inventories	3.2	4,828	4,404	4,797
Total current assets		17,887	25,479	23,103
Non-Current Assets				
Plant and equipment	3.5	2,524	2,702	2,658
Intangible assets	3.6	12,821	11,864	12,147
Total non-current assets		15,345	14,566	14,805
Total assets		33,232	40,045	37,908
Current Liabilities				
Trade and other payables	3.3	11,775	18,825	15,838
Contract liability	2.3	1,140	877	1,044
Provisions	3.4	432	554	468
Derivative financial instruments		-	25	-
Borrowings	4.1	2,332	5,127	1,697
Total current liabilities		15,679	25,408	19,047
Non-Current Liabilities				
Borrowings	4.1	1,230	1,465	1,364
Contract liability	2.3	3,692	3,366	3,374
Contingent consideration		378	2,338	1,016
Total non-current liabilities		5,300	7,169	5,754
Total liabilities		20,979	32,577	24,801
Net assets		\$12,253	\$7,468	\$13,107
Equity				
Contributed equity	4.3	130,282	124,055	130,228
Accumulated losses		(115,525)	(114,464)	(114,738)
Other reserves		(2,504)	(2,123)	(2,383)
Total equity		\$12,253	\$7,468	\$13,107

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

Consolidated and Condensed Interim Cash Flow Statement

		Six months ended Unaudited 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended Audited 31 Dec 2019 \$000s
	Note			
Cash flows from operating activities				
Receipts from customers exclusive of GST/VAT		24,731	33,607	66,563
Payments to suppliers and employees exclusive of GST/VAT		(24,217)	(32,176)	(63,432)
Interest paid	4.2	(216)	(520)	(872)
Interest received	4.2	6	14	19
Taxation paid		71	(290)	(601)
Net GST/VAT received		347	473	1,310
Net cash inflow from operating activities		722	1,108	2,987
Cash flows from investing activities				
Payments for plant and equipment	3.5	(64)	(139)	(411)
Proceeds from disposals of plant and equipment		41	-	12
Payments for intangible assets	3.6	(1,706)	(1,450)	(3,347)
Net cash outflow from investing activities		(1,729)	(1,589)	(3,746)
Cash flows from financing activities				
Cash proceeds from share issues, net of issue costs	4.3	54	428	5,757
New loan drawdowns	4.1	4,509	3,506	8,328
Loan repayments	4.1	(3,965)	(2,589)	(10,844)
Finance lease borrowing	4.1	-	140	175
Finance lease repayments	4.1	(144)	(140)	(282)
Net cash inflow from financing activities		454	1,345	3,134
Net (decrease) / increase in cash and cash equivalents		(553)	864	2,375
Cash and cash equivalents at the beginning of the financial period		3,459	933	933
Effect of exchange rate movements on cash		156	38	151
Cash and cash equivalents at end of period		\$3,062	\$1,835	\$3,459

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

Notes to the Interim Financial Statements

for the six months ended 30 June 2020

1. Basis of preparation

1.1 General Information

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

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

These interim financial statements do not include all the notes and disclosures set out in the annual report. As a result, this report should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

These consolidated and condensed financial statements have been approved for issue by the Board of Directors on 26 August 2020 and have not been audited.

1.2 Summary of Significant Accounting Policies

Basis of preparation

These consolidated and condensed financial statements of the group have been prepared in accordance with generally accepted accounting practice in New Zealand. The group is a for-profit entity for the purposes of financial reporting. These consolidated and condensed financial statements comply with New Zealand International Accounting Standard 34: Interim Financial Reporting.

All significant accounting policies have been consistently applied to all the years presented, unless otherwise stated. Comparative amounts for 2019 were required to be restated to account for the acquisition of iProximity Pty Limited. See note 5.1 for details of the adjustments made to the 2019 comparatives.

Entities reporting

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

Historical cost convention

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

New standards, amendments and interpretations not yet adopted

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

Going concern assumption

The group has reported a loss for the period ended 30 June 2020 of \$787,000 (2019 - profit of \$722,000) and the operating cash inflow was \$722,000 (2019 – cash inflow \$1,108,000). COVID-19 has had an impact on the group's trading performance in the period and difficult trading conditions are expected to continue through 2020 and into 2021. The Company has acted to conserve cash, has secured an increase to its banking facilities and in July 2020, raised \$5.4m through a 1:3 rights issue. The Company will continue to manage cash tightly during the period of uncertainty.

In assessing the adoption of the going concern principle in the preparation of the financial statements, the Directors have reviewed a future cash flow forecast to 31 December 2021. The Directors have also considered downside

scenarios which reflect the impact of reduced demand in Q4 2020, Q1 2021 and full year 2021 on revenues and the planned mitigating actions.

In preparing the downside scenarios, the following key assumptions and mitigating actions were analysed:

- Q3 2020 and Q4 2020 revenues at similar levels to Q2 2020 (so 75% below the same quarters in 2019)
- 2021 full year revenue 30% below 2019, with Q1 2021 at 50% of Q1 2020
- Forecasting close to zero sales of its new IoT products in 2021
- Capital expenditure limited to that required for new product launches in the next 6-9 months, and various capex spend deferral scenarios assessed
- Staff cost reductions implemented as necessary and including potential continuation of salary reductions, furloughs, restructuring and non-cash settlement of remuneration entitlements.
- Extension of supplier terms by agreement
- Considered access to new and/or increased loan facilities or new equity capital

The forecast and downside scenarios include judgments and estimates over key assumptions relating to customer demand, future revenue, gross margins, operating costs, cash flows and capital expenditure and the ability to manage those costs and cash flows to respond to changes that might arise between actual and forecast cash flows over the forecast period.

It is possible, given the uncertain nature of customer and government responses to COVID-19 outbreaks, that the economic environment may change rapidly and the mitigating cash and cost actions available to the Company may not be adequate to fully alleviate the potential negative impacts on Wellington's business. Customers extended payment terms as a result of COVID-19 and the current environment increases the risk of customer default, although the Company holds trade credit insurance cover.

The board believes that, given the recent support it has seen during its last two rights issues, and ongoing support from its retail banking partners, that if needed it could rely on financing support to ensure any interim funding requirements were supported.

Given the nature of the judgments and estimates noted above and management's ability to take mitigating actions, it is the considered view of the Directors that the group will have access to adequate resources to meet its ongoing obligations for at least a period of 12 months from the date of signing these consolidated and condensed financial statements.

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

Critical accounting estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Covid-19 has clearly had an impact on the business operations, initially impacting supply chain and then office closures and more significantly, customer demand reductions.

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

Area of estimation

- Going concern – forecasts – note 1.2
- Development costs and goodwill impairment – note 3.6
- Probability of contingent consideration targets being achieved – note 5.1
- Trade receivables – doubtful debts and expected credit losses – note 3.1

2. Results for the period

2.1 Segment information

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

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

(a) Reportable segments

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

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

Information related to each reportable segment is set out below:

June 2020	Motors \$000s	IoT \$000s	Unallocated \$000s	Total \$000s
Revenue	12,496	7,988	-	20,484
Cost of goods sold	(9,805)	(4,465)	-	(14,270)
Gross profit	2,691	3,523	-	6,214
Gross profit %	21.5%	44.1%		30.3%
Other income	218	238	167	623
Operating expenses	(1,251)	(1,656)	(2,794)	(5,701)
EBITDA	1,658	2,105	(2,627)	1,136
Depreciation	(120)	(30)	(178)	(328)
Amortisation and impairment	(235)	(1,113)	(9)	(1,357)
Loss before interest & taxation	\$1,303	\$962	(\$2,814)	(\$549)
Non-current assets				
Property, plant and equipment	775	183	1,566	2,524
Goodwill	-	3,154	-	3,154
Intangible assets	4,450	5,054	163	9,667
Total non-current assets	\$5,225	\$8,391	\$1,729	\$15,345

June 2019	Motors \$000s	IoT \$000s	Unallocated \$000s	Total \$000s
Revenue	19,858	13,456	-	33,314
Cost of goods sold	(15,802)	(8,929)	-	(24,731)
Gross profit	4,056	4,527	-	8,583
Gross profit %	20.4%	33.6%		25.8%
Other income	-	-	8	8
Operating expenses	(913)	(1,550)	(3,681)	(6,144)
EBITDA	3,143	2,977	(3,673)	2,447
Depreciation	(87)	(21)	(164)	(272)
Amortisation & Impairment	(314)	(592)	(1)	(907)
Profit before interest & taxation	\$2,742	\$2,364	(\$3,838)	\$1,268
Non-current assets				
Property, plant and equipment	603	140	1,959	2,702
Goodwill	-	3,219	-	3,219
Intangible assets	4,426	4,109	110	8,645
Total non-current assets	\$5,029	\$7,468	\$2,069	\$14,566
December 2019	Motors \$000s	IoT \$000s	Unallocated \$000s	Total \$000s
Revenue	37,704	24,015	-	61,719
Cost of goods sold	(30,870)	(14,215)	-	(45,085)
Gross profit	6,834	9,800	-	16,634
Gross profit %	18.1%	40.8%		27.0%
Other income	-	-	18	18
Operating expenses	(2,252)	(3,564)	(6,617)	(12,433)
EBITDA	4,582	6,236	(6,599)	4,219
Depreciation	(199)	(47)	(339)	(585)
Amortisation & Impairment	(789)	(1,334)	-	(2,123)
Profit before interest & taxation	\$3,594	\$4,855	(\$6,938)	\$1,511
Non-current assets				
Property, plant and equipment	703	215	1,740	2,658
Goodwill	-	3,223	-	3,223
Intangible assets	4,059	4,737	128	8,924
Total non-current assets	\$4,762	\$8,175	\$1,868	\$14,805

(b)Geographical segments

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

	Six months ended 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended 31 Dec 2019 \$000s
Revenue from external customers by geographic areas			
Americas	16,379	29,170	53,457
Asia / Pacific (APAC)	1,701	1,663	4,485
Europe / Middle East / Africa (EMEA)	2,404	2,481	3,777
Total	\$20,484	\$33,314	\$61,719

Revenue is allocated above based on the country in which the customer is located. APAC revenue includes \$114,000 (2019: \$73,000) from New Zealand customers.

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Total non-current assets			
Americas	26	29	34
Asia / Pacific (APAC) – mainly in New Zealand	15,242	14,461	14,687
Europe / Middle East / Africa (EMEA)	77	76	84
Total	\$15,345	\$14,566	\$14,805

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

2.2 Seasonality of operations

Revenues and operating profits are generally expected to be higher in the first six months of a calendar year, lower in the 3rd quarter due to customers in the northern hemisphere shutting down for summer holidays and increasing again in the 4th quarter. Revenues and operating profits in the 4th and 1st quarters of a calendar year can be impacted by the timing of the China New Year holiday.

2.3 Revenue

	Six months ended 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended 31 Dec 2019 \$000s
Sales of goods revenue	19,882	32,898	60,780
Services revenue	602	416	939
Total	\$20,484	\$33,314	\$61,719

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, excluding GST / VAT, rebates and discounts and after eliminating sales within the group. The group disaggregates revenues from contracts by geographical regions.

(a) Sale of Goods

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

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

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

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

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

(b) Sale of services

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

The group received revenue in previous years amounting to \$US212,000 in connection with the development of a new motor product. This revenue was deferred as a contract liability at 30 June 2019. During 2019, the Company reached agreement with its development "partner" that the amount received be regarded as a contribution to the

Company's capitalised development cost. Accordingly, \$331,000 was reclassified to intangible assets at 31 December 2019 as a reduction of the asset book amount.

Contract liabilities	Six months ended 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended 31 Dec 2019 \$000s
Carrying amount at start of period	4,418	2,972	2,972
Invoiced in the period	819	1,682	2,723
Recognised in revenue	(602)	(416)	(939)
Reclassified to intangible assets	-	-	(331)
Exchange adjustment	197	5	(7)
Carrying amount at end of period	\$4,832	\$4,243	\$4,418
Current portion	1,140	877	1,044
Non-current portion	3,692	3,366	3,374
	\$4,832	\$4,243	\$4,418

2.4 Other income

	Six months ended 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended 31 Dec 2019 \$000s
Covid-19 government subsidies	618	-	-
Other income	5	8	18
Total	\$623	\$8	\$18

2.5 Operating expenses

	Six months ended 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended 31 Dec 2019 \$000s
Wages and salaries and other short-term benefits	5,455	4,762	10,431
Employee share option expense	-	4	6
Employee benefits	\$5,455	\$4,766	\$10,437
(Gain) / loss on remeasurement of contingent consideration (see note 5.1)	(\$638)	\$11	(\$467)
Capitalisation of labour and expenses to intangible assets	(\$1,670)	(\$1,397)	(\$3,191)

2.6 Earnings per share

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

Basic EPS of a deficit of 0.24 cents (June 2019 – profit of 0.28 cents) is calculated by dividing the deficit attributable to equity holders of the Company of \$787,000 (June 2019 – profit of \$722,000) by the weighted average number of ordinary shares in issue during the period of 322,799,268 (June 2019 – 258,335,177).

Diluted EPS for the six months ended 30 June 2020 of a deficit of 0.24 cents (June 2019 - profit of 0.25 cents) is calculated by dividing the deficit attributable to equity holders of the Company of \$787,000 (June 2019: - profit of \$722,000) by the weighted average number of shares in issue adjusted to reflect any commitments the group have to issue shares in future that would decrease EPS. The weighted average number of ordinary shares is compared with the number of shares that would have been issued assuming the exercise of share options and achievement of performance targets in connection with contingent consideration.

At 30 June 2020, the following potentially dilutive instruments exist of future earnings per share, but are not included in the calculation of diluted EPS, because the effect would have been anti-dilutive:

Numbers of shares	30 Jun 2020
Part paid shares	4,869,802
US employee share options	769,725
Share based contingent consideration	14,173,446

3. Operating assets and liabilities

3.1. Trade and other receivables

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Trade receivables	9,476	18,245	13,848
Provision for doubtful debts	(257)	(130)	(150)
Net trade receivables	9,219	18,115	13,698
Prepayments	314	408	544
VAT/GST refunds due	(3)	382	56
Income tax refund due	357	285	445
Other receivables	46	50	48
	\$9,933	\$19,240	\$14,791

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

NZ IFRS 9 requires the group to calculate expected credit losses on trade receivables using a provision matrix. The group has previously determined that its credit loss experience over the period from 2013 to 2019 was 0.1% of revenue. There have been no credit losses in the 6 months to 30 June 2020 but COVID-19 has resulted in customers seeking extended terms and delaying payments. Trade credit insurance cover provides some protection to individual customer limits. Recognising the increased risk, the provision for credit loss at 30 June 2020 has been calculated at 1.5% on the uninsured amount owing for those customers assessed as higher risk. For lower risk customers, 0.1% has been used.

3.2. Inventories

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Finished goods – at cost	4,067	3,603	4,288
Work in progress – at cost	700	847	726
Raw materials – at cost	526	289	319
Less inventory provisions	(465)	(335)	(536)
Total inventories	\$4,828	\$4,404	\$4,797

3.3 Trade and other payables

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Trade payables	8,951	16,597	13,402
Employee entitlements	1,583	910	1,556
Accrued expenses	945	1,318	880
Other	296	-	-
	\$11,775	\$18,825	\$15,838

3.4 Provisions

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Warranty provisions			
Carrying amount at start of period	468	415	415
Additional provisions recognised	21	208	224
Amounts used	(83)	(68)	(170)
Exchange adjustment	26	(1)	(1)
Carrying amount at end of period	\$432	\$554	\$468

3.5 Plant and equipment

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Net book amount at start of period	2,658	2,854	2,854
Additions	64	139	411
Depreciation	(328)	(272)	(585)
Disposals	(41)	-	(13)
Exchange adjustment	171	(19)	(9)
Net book amount at end of period	\$2,524	\$2,702	\$2,658

Depreciation			
Property	103	92	187
Plant and equipment	163	123	273
Office equipment, furniture & fittings	62	57	125
	\$328	\$272	\$585

Capital commitments

Capital commitments contracted for at 30 June 2020 amounted to \$104,000 (June 2019 \$293,000)

3.6 Intangible assets

	30 Jun 2020 \$000s	Restated 30 Jun 2019 \$000s	31 Dec 2019 \$000s
Net book amount at start of period	12,147	8,970	8,970
Restatement for acquisition accounting	-	2,327	2,327
Net book amount at start of period restated	12,147	11,297	11,297
Reclassification from contract liability	-	-	(331)
Additions	1,694	1,450	3,347
Amortisation	(901)	(768)	(1,800)
Impairment	(456)	(139)	(323)
Exchange adjustment	337	24	(43)
Net book amount at end of period	\$12,821	\$11,864	\$12,147

Analysis of net book amount			
Internally generated development assets	9,199	8,134	8,528
Patents	267	337	309
Goodwill	3,154	3,219	3,223
Other	201	174	87
	\$12,821	\$11,864	\$12,147

Additions in the six months to 30 June 2020 include \$1,670,000 for internally generated development costs and \$24,000 for patents, trademarks and software. Payments for intangible assets in the period amounting to \$1,706,000 are included in the Consolidated and Condensed Interim Cash Flow Statement.

Internally generated development costs include \$2,981,000 for projects underway and not complete at balance date. This cost is not yet being amortised.

Impairment losses have been recognised as follows:

- Patent costs – \$44,000 - The carrying value of patents which are expiring and will not be renewed.
- Internally generated development costs - \$412,000 - the carrying value of costs for the development of a SCS Connect retrofit device. Demand for the product has not eventuated and it is likely that the new Connect Monitor battery retrofit device due for launch in late 2020 will be a preferred solution for customers.

Goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations with indefinite lives has been allocated to the IoT Cash Generating Unit (CGU) which is also an operating and reportable segment for impairment testing. COVID-19 has impacted demand for all the Company's products, including IoT products. The group performed an impairment test at 30 June 2020. The recoverable amount of the IoT CGU at 30 June 2020 has been determined based on a 5 year value in use calculation using cash flow projections from the forecasts prepared for 2020 and 2021 reflecting lower demand due to COVID-19. The pre-tax discount rate applied to the cash flow projections is 14% and cash flows beyond 2021 using a 5% growth rate. The calculation of value in use is most sensitive to assumptions on demand, gross margins, completion and launch of new IoT products and retaining volumes to current customers. Gross margins are based on current pricing and product costs. As a result of this analysis, management did not identify an impairment for this CGU.

4. Capital and financing costs

4.1 Borrowings

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Current portion			
Loan facility – BNZ Trade Finance	2,065	1,449	1,420
Loan facility – Meta Capital Limited	-	896	-
Loan facility – Onimeg Investments Limited	-	2,500	-
Liabilities in respect of right-of-use assets	198	222	198
Other Borrowings	69	60	79
	\$2,332	\$5,127	\$1,697
Non-Current portion			
Liabilities in respect of right-of-use assets	1,084	1,216	1,180
Other Borrowings	146	249	184
	\$1,230	\$1,465	\$1,364

Loan facility – BNZ Trade Finance

In December 2018 the Company secured a \$1.5m trade finance facility. The facility was increased to \$2.0m in May 2019 and to \$2.5m in June 2020. The facility has no term and is repayable on demand. The Company can finance invoices to certain of its customers over a maximum 120 days term. Interest is payable on repayment at a 3% margin above bank base lending rate.

Loan facility – Meta Capital Limited

The loan outstanding at 30 June 2019 was US\$ 600,000. This was repaid in December 2019. Interest was payable at 12.5%.

Loan facility – Onimeg Investments Limited

The loan outstanding at 30 June 2019 was \$2,500,000. \$1,500,000 was repaid in September 2019 and \$1,000,000 was repaid in December 2019. Interest was payable at 16% pa on a quarterly basis in arrears.

Other borrowings

Comprises equipment finance and lease liabilities in respect of “right of use” assets.

4.2 Finance income and expenses

	Six months ended 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended 31 Dec 2019 \$000s
Finance income			
Interest income	6	14	19
	\$6	\$14	\$19
Finance expense			
Interest payable to Bank trade finance facility	53	42	85
Interest payable to Smartshares Limited	-	18	30
Interest payable to Meta Capital Limited	-	57	128
Interest payable to Onimeg Investments Limited	-	194	284
Other interest	175	209	363
	\$228	\$520	\$890

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.

	30 Jun 2020 Shares	30 Jun 2019 Shares	30 Jun 2020 \$000s	30 Jun 2019 \$000s
Ordinary shares – fully paid (a)	323,936,592	261,726,010	130,257	124,026
Ordinary shares – partly paid (b)	4,869,802	8,930,641	25	29
US employee share options (c)	769,725	1,058,372	-	-
Total shares and options on issue	329,576,119	271,715,023	\$130,282	\$124,055

(a) Ordinary shares – fully paid

	30 Jun 2020 Shares	30 Jun 2019 Shares	30 Jun 2020 \$000s	30 Jun 2019 \$000s
Opening balance of ordinary shares on issue	322,707,005	257,436,000	130,202	123,590
Part paid shares and US employee options exercised	1,229,587	4,290,010	69	436
Share issue costs	-	-	(14)	-
Ordinary fully paid shares on issue at period end	323,936,592	261,726,010	\$130,257	\$124,026

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

	30 Jun 2020 Shares	Six months ended 30 Jun 2019 Shares	30 Jun 2020 \$000s	30 Jun 2019 \$000s
Partly paid shares on issue at start of period	5,810,742	12,460,638	26	37
Issued	-	-	-	-
Exercised	(940,940)	(3,529,997)	(1)	(8)
Ordinary part paid shares on issue at period end	4,869,802	8,930,641	\$25	\$29

(c) US employee share options (numbers)

	30 Jun 2020	30 Jun 2019
Options outstanding at start of period	1,058,372	1,818,385
Exercised	(288,647)	(760,013)
Outstanding at end of period	769,725	1,058,372

5. Other information

5.1 Acquisition of iProximity Limited

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

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

The purchase consideration was:

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

As detailed above, the contingent consideration includes amounts that potentially were payable in cash on 31 March 2020. No payment was required. In addition, up to 18,897,928 ordinary shares in Wellington may be issued.

The acquisition date fair value of the contingent consideration arrangement of \$2,327,000 was estimated by considering the likelihood that the cash and share based targets would be achieved. The cash-based targets were considered unlikely to be achieved and the fair value of the contingent cash consideration was estimated to be nil. The likelihood of achieving the share-based targets was assessed and the probability adjusted number of ordinary shares to be issued was calculated. The fair value of the share-based contingent consideration was determined by multiplying the estimated number of shares (13,949,034 shares) by \$0.15 being the price of the Company's shares on NZX at the acquisition date.

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

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

Comparative figures for 2019 have been restated. Amounts for goodwill and contingent consideration at the start of the 2019 period were increased by \$2,327,000. The goodwill is attributable to the synergies that arise from the Company being able to include iProximity's marketing solutions as part of the group's IoT product offering. The Company expects to be able to sell more of its IoT solutions (including SCS Connect hardware) as a result of the wider services offering.

The Company and vendor agreed during the period to an extension of time for SCS Connect share-based targets to be achieved and an increase in the target. An additional 12 months has been added, so the final year for the targets to be achieved is now the 2021 calendar year.

As at 30 June 2020, there was a decrease on contingent consideration of \$638,000 which resulted in a fair value gain being recognised in operating expenses for the contingent consideration arrangement, to reflect an updated view on the likelihood of share-based targets being achieved and a decrease in the Company's share price to \$0.08 at 30 June 2020 (decreasing the value of any shares to be issued). The probability adjusted number of shares was calculated to be 4,724,482 shares.

Contingent consideration	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Fair value at start of period	1,016	2,327	2,327
Part settlement during the year	-	-	(844)
Remeasurement recognised in income statement	(638)	11	(467)
	\$378	\$2,338	\$1,016

The acquired business contributed revenues of \$37,000 and a loss of \$201,000 for the six months ended 30 June 2020 (\$44,000 revenue and a loss of \$176,000 to the group for the six months ended 30 June 2019). In addition, the proximity marketing solutions offered by the business are integrated into Wellington's IoT product offering and are assisting the group to generate IoT revenue outside of the acquired business.

5.2 Related party transactions

(a) Directors

The names of persons who are Directors of the Company are on page 34.

(b) Key management personnel and compensation

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

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Salaries, fees and other short-term benefits	738	934	1,934
Share based remuneration	0	1	2
Directors remuneration	94	83	226
Total	\$832	\$1,018	\$2,162

(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.

(d) Meta Capital Limited loan

Meta Capital Limited is a company associated with a director, Mr J McMahon. Note 4.1 sets out details of the agreements with Meta Capital Limited and the amounts outstanding at balance dates. Interest paid / payable to Meta Capital Limited is disclosed in note 4.2.

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

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Purchases from East West	12,254	18,010	36,990
Sales to East West	364	865	1,580
Cash payments to East West	15,363	19,473	38,518
Cash receipts from East West	671	451	1,169
Trade receivable from East West at period end	159	468	466
Trade payable to East West at period end	7,527	10,701	10,636

5.3 Contingencies and commitments

There are no material contingent liabilities or assets (June 2019 - \$nil).

5.4 Leases

The consolidated and condensed interim statement of financial position shows the following amounts related to leases of right of use assets:

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Right-of-use assets			
Properties	1,100	1,239	1,141
Plant and equipment	20	4	23
Office equipment, furniture and fittings	11	145	12
	\$1,131	\$1,388	\$1,176
Additions to right-of-use assets in the period			
Plant and equipment	-	-	25
Office equipment, furniture and fittings	-	-	13
	\$ -	\$ -	\$38

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Depreciation charge for right-of-use assets			
Properties	96	92	182
Plant and equipment	3	3	7
Office equipment, furniture and fittings	2	39	1
	\$101	\$134	\$190
Interest expense on lease liabilities	\$44	\$48	\$95
Expense relating to short-term leases (included in operating expenses)	\$3	\$25	\$51

The consolidated and condensed interim cash flow statement shows the following amounts related to leases of right of use assets:

	Six months ended 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended 31 Dec 2019 \$000s
Cash outflow for right-of-use leases	\$95	\$117	\$189
Lease repayments for leases previously classified as finance leases under NZ IAS 17	\$48	\$23	\$93

5.5 Financial instruments by category

	30 Jun 2020 \$000s	30 Jun 2019 \$000s	31 Dec 2019 \$000s
Assets per Statement of Financial Position			
Loans and receivables			
Trade and other receivables	9,265	18,165	13,746
Cash and cash equivalents	3,062	1,835	3,459
Derivatives used for hedging at fair value			
Derivative financial instruments	64	-	56
	\$12,391	\$20,000	\$17,261
Liabilities per Statement of Financial Position at amortised cost			
Trade and other payables	11,775	18,825	15,838
Borrowings	3,562	6,592	3,061
Liabilities per Statement of Financial Position at fair value			
Contingent consideration	378	2,338	1,016
Derivative financial instruments	-	25	-
	\$15,715	\$27,780	\$19,915

Fair value estimation

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

The forward exchange contract has been classified as Level 2.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (Level 3)

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value. The fair value of contingent consideration in respect of the acquisition of iProximity Pty Limited is determined using the estimated number of shares that are to be issued to the vendors pursuant to the purchase agreement and the Company's share price at balance date. The probability adjusted number of shares and the Company share price at the acquisition date, 30 June 2019, 31 December 2019 and 30 June 2020 are set out in note 5.1.

5.6 Maturity analysis

The amounts disclosed are the contractual undiscounted cash flows.

30 June 2020	Trade and other payables \$000s	Borrowings \$000s	Lease liabilities \$000s	Total \$000s
Less than 6 months	11,432	2,065	133	13,630
7 to 12 months	-	-	137	137
More than 12 months	-	-	1,227	1,227
	\$11,432	\$2,065	\$1,497	\$14,994

30 June 2019	Trade and other payables \$000s	Borrowings \$000s	Lease liabilities \$000s	Total \$000s
Less than 6 months	18,782	4,845	139	23,766
7 to 12 months	-	-	143	143
More than 12 months	-	-	1,465	1,465
	\$18,782	\$4,845	\$1,747	\$25,374

31 December 2019	Trade and other payables \$000s	Borrowings \$000s	Lease liabilities \$000s	Total \$000s
Less than 6 months	15,729	1,420	143	17,292
7 to 12 months	-	-	134	134
More than 12 months	-	-	1,364	1,364
	\$15,729	\$1,420	\$1,641	\$18,790

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

5.7 Reconciliation of profit for the period to net cash inflow from operating activities

	Six months ended Unaudited 30 Jun 2020 \$000s	30 Jun 2019 \$000s	Year ended Audited 31 Dec 2019 \$000s
(Loss) / profit after taxation for the period	(787)	722	448
Adjustments for:			
Depreciation, amortisation and impairment	1,685	1,179	2,708
Share based payments	-	4	6
Inventory provision movements	(71)	190	391
Doubtful debt provision movements	108	-	20
Provision for warranty movements	(36)	139	53
Change in fair value of contingent consideration	(638)	-	(467)
Net foreign exchange differences	(680)	(44)	(113)
Increase in trade and other receivables	4,751	(1,262)	3,167
Increase in contract liabilities	414	1,271	1,446
Decrease (increase) in inventories	39	296	(298)
(Decrease) increase in trade and other payables	(4,063)	(1,387)	(4,374)
Net cash inflow from operating activities	\$722	\$1,108	\$2,987

5.8 Events after reporting date

In July 2020, the Company completed a 1:3 pro-rata rights issue raising \$5.4m through the issue of 107,978,028 ordinary shares. The amount, net of issue costs is estimated to be \$5.2m.

Directory

Directors

John McMahon, *Chairman*
Mr Gottfried Pausch
Mr John Scott
Mr Keith Oliver

Executive Team

Greg Allen, *Chief Executive Officer*
Steven Hodgson, *Senior Vice President Commercial*
David Howell, *Chief Technical Officer*
Howard Milliner, *Chief Financial Officer & Company Secretary*
Marc Tinsel, *Vice President, Supply Chain and Operations*
Peter Barnes, *Global Quality Leader*
David Burden, *VP Group Marketing & IoT Products*

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Banker

Bank of New Zealand

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