

Wellington®



## Annual Financial Statements 2015

---

### 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

These financial statements have been presented in a style which endeavours to make them less complex. The purpose of the information in text boxes is to give a commentary on each section with the aim of providing readers with a clearer understanding of the Group and its operations.

Financial Statements	Page
• Statement of Comprehensive Income	2.
• Statement of Movements in Equity	3.
• Statement of Financial Position	4.
• Cash Flow Statement	5.
Notes to the Financial Statements	
1. Basis of preparation	7.
2. Results for the year	10.
3. Operating assets and liabilities	15.
4. Capital and financing costs	22.
5. Risk	26.
6. Other information	30.
Independent Auditors' Report	36.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

		2015	2014
	Note	\$000s	\$000s
<b>Revenue</b>	2.2	<b>24,572</b>	17,805
Cost of sales		(19,311)	(14,609)
Gross profit		<b>5,261</b>	3,196
Other income	2.3	<b>691</b>	710
Operating expenses		(7,754)	(8,415)
Loss before interest & taxation		<b>(1,802)</b>	(4,509)
Finance income	4.2	<b>49</b>	594
Finance expenses	4.2	(970)	(559)
Loss before income tax		<b>(2,723)</b>	(4,474)
Income tax expense	2.5	(57)	-
<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		-	-
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

	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
<b>2015</b>					
<b>Balance at 1 January 2015</b>		114,308	(106,994)	(2,336)	4,978
<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>		-	(2,780)	447	(2,333)
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>		\$117,184	(\$109,648)	(\$1,938)	\$5,598
<b>2014</b>					
<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>		-	(4,474)	43	(4,431)
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>		\$114,308	(\$106,994)	(\$2,336)	\$4,978

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



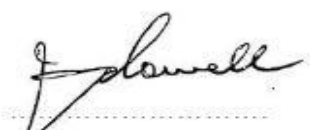


# Consolidated Statement of Financial Position

as at 31 December 2015

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

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		25,479	19,972
Payments to suppliers and employees exclusive of GST/VAT		(24,662)	(24,567)
Interest paid		(289)	(141)
Interest received		39	39
Taxation paid		(68)	-
Net GST/VAT received		335	271
Net cash inflow / (outflow) from operating activities		834	(4,426)
<b>Cash flows from investing activities</b>			
Payments for plant and equipment	3.2	(233)	(678)
Payments for intangible assets	3.3	(1,973)	(1,604)
Proceeds from sale of plant and equipment		2	100
Net cash outflow from investing activities		(2,204)	(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	2,876	4,696
Net cash inflow from financing activities		2,876	4,696
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,506</b>	<b>(1,912)</b>
Cash and cash equivalents at the beginning of the financial period		1,196	2,984
Effect of exchange rate movements on cash		178	124
<b>Cash and cash equivalents at end of year</b>	3.1	<b>\$2,880</b>	<b>\$1,196</b>

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

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

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

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

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	2014
	\$000s	\$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	2014
	\$000s	\$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	2014
	\$000s	\$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	2014
	\$000s	\$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.

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

## 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>	<b>\$1,196</b>

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>	<b>\$1,196</b>

##### (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>	<b>\$5,310</b>

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

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

#### (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.

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

### 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	\$330	\$95	\$425
<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	\$701	\$179	\$880
<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	\$701	\$179	\$880
<b>Year ended 31 December 2015</b>			
Opening net book amount	701	179	880
Additions	215	18	233
Depreciation	(198)	(53)	(251)
Impairment	-	-	-
Disposals	-	-	-
Exchange adjustment	123	24	147
Closing net book amount	\$841	\$168	\$1,009
<b>At 31 December 2015</b>			
Cost	5,027	1,678	6,705
Accumulated depreciation and impairment	(4,168)	(1,398)	(5,566)
Exchange adjustment	(18)	(112)	(130)
Net book amount	\$841	\$168	\$1,009



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

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

Gain / (loss) on disposal	\$2	(\$2)
---------------------------	-----	-------

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	2,442	497	12	80	3,031
Additions	1,851	51	38	33	1,973
Amortisation	(79)	(57)	(10)	(2)	(148)
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Exchange adjustment	362	71	-	11	444
Closing net book amount	\$4,576	\$562	\$40	\$122	\$5,300
<b>At 31 December 2015</b>					
Cost	8,377	1,320	444	208	10,349
Accumulated amortisation	(4,078)	(777)	(393)	(79)	(5,327)
Exchange adjustment	277	19	(11)	(7)	278
Net book amount	\$4,576	\$562	\$40	\$122	\$5,300

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.

<b>Amortisation and impairment</b>	<b>2015 \$000s</b>	<b>2014 \$000s</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
	<b>\$49</b>	<b>\$594</b>
<b>Finance expenses</b>		
Amortisation of borrowing (note 4.1)	681	376
Preference shares coupon	252	179
Other interest expense	37	4
	<b>\$970</b>	<b>\$559</b>

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

### (a) Ordinary shares – fully paid

Opening balance of ordinary shares on issue	126,373,117	126,058,703	114,273	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	105,310,930	-	3,159	-
• Share issue costs	-	-	(277)	(50)
Ordinary fully paid shares on issue at year end	231,684,047	126,373,117	\$117,155	\$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	6,941,462	3,790,649	35	19
Issues of partly paid shares during the year:	4,207,056	3,150,803	5	16
Lapsed	(2,154,994)	-	(11)	-
Surrendered	-	-	-	-
Ordinary part paid shares on issue at year end	8,993,524	6,941,452	\$29	\$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	673,510	288,647
Issues of U.S. employee options during the year:	384,863	384,863
Lapsed	-	-
Outstanding at end of year	1,058,373	673,510

**(d) Share warrants (numbers)**

	2015	2014
Warrants outstanding at start of year	5,300,000	5,300,000
Exercised or lapsed during the year	(5,300,000)	-
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.

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

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 \$000	NZD amount transacted in USD \$000	If NZD / USD rate had been 0.60 \$000	If NZD / USD rate had been 0.80 \$000
\$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.

\$000s	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 of 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 38.

#### (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	1,635,665	1,635,665
18 Jun 2014	18 Jun 2016	18 Jun 2018	14.22	14.22	13.72	1,260,587	1,260,587
23 Jul 2014	23 Jul 2017	23 Jul 2019	14.73	14.73	14.23	1,890,216	1,890,216
1 Jul 2015	1 Jul 2017	1 Jul 2019	5.21	5.21	5.11	2,316,840	-
1 Jul 2015	1 Jul 2018	1 Jul 2020	5.65	5.65	5.53	1,890,216	-

A Partly Paid Share Scheme was established in June 2008, to enable certain employees to acquire shares in the Company. Under the Scheme the issue price is 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 issues	2014 issues	2013 issues
• Market price or "hurdle price" required to enable the partly paid shares to be exercised:	5.21 – 5.65 cents	14.22-14.73 cents	16.29-17.25 cents
• Expected volatility of the Company's shares:	43.4%	46.57%	52.7%
• Risk-free interest rate:	2.97 – 3.04%	3.63 – 3.87%	2.87%
• Expected term:	2 – 3 years	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	288,647	288,647
23 Jul 2014	23 Jul 2018	14.3	288,647	288,647
21 Aug 2014	21 Aug 2018	12.2	96,216	96,216
1 Jul 2015	1 Jul 2019	5.59	384,862	-

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

	2015 issue	2014 issues	2013 issue
• Market price or "hurdle price" required (being the issue price plus 30%), to enable the partly paid shares to be exercised:	5.59 cents	12.2 – 14.3 cents	16.9 cents
• Expected volatility of the Company's shares:	43.4%	46.57%	52.7%
• Risk-free interest rate:	3.04%	3.87%	2.87%
• Expected term:	3 years	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	5,365	4,856
Cash and cash equivalents	2,880	1,196
<b>Derivatives used for hedging (at fair value)</b>		
Derivative financial instruments	-	-
	<b>\$8,245</b>	<b>\$6,052</b>
<b>Liabilities per Statements of Financial Position at amortised cost</b>		
Trade and other payables	7,830	5,333
Borrowings	5,188	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>	<b>\$9,854</b>

## 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

Auditors remuneration	2015 \$000s	2014 \$000s
PricewaterhouseCoopers:		
- Audit of financial statements of the Group	85	90
- Procedures over interim financial statements of the Group	6	6
Audit of subsidiaries by other auditors	7	8
Total remuneration for audit services	\$98	\$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 2 to 35, 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 2 to 35 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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants  
26 February 2016

Auckland

# 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 0415

Fax: 64-9-479 5540

## Internet

Website: [www.wdtl.com](http://www.wdtl.com)

Email: [info@wdtl.com](mailto:info@wdtl.com)

## Address

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 Financial Statements 2015

[www.wdfl.com](http://www.wdfl.com)

WT8725