



## Interim Report June 2016



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

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## Our Supply Chain Network

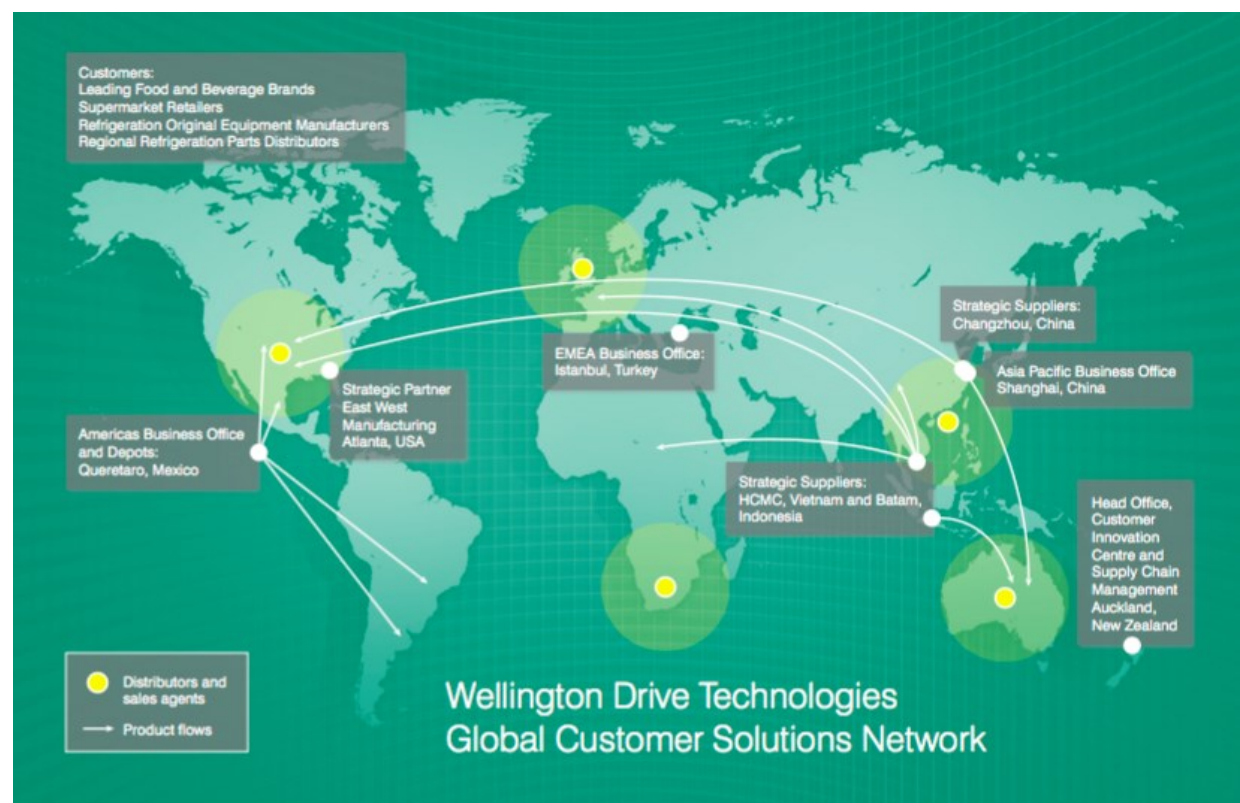
Since the beginning of 2016 Wellington's supply chain has delivered over 600,000 motors to customers across 26 countries and has now commenced shipment of its new SCS Connect 'Cloud Connected' controller platform.



Wellington's global delivery network supports its customers in the development and delivery of their product needs, supply chain requirements and new technology roadmaps.

Customer-focused teams are located in New Zealand, Mexico, Brazil, China, Singapore, Turkey, Italy, Canada and the USA, working around the clock to ensure that Wellington 'delivers' for customers.

The Company's supply chain network, with supplier partner factories in Vietnam, China, and Malaysia ensures dual supply for all of its products and provides customers with delivery certainty. Our supply chain specialises in complex electronics manufacturing, motor mechanical assembly, plastics design, plastics injection moulding and design support capabilities



## 1<sup>st</sup> Half 2016 Financial Highlights



US Dollar revenue  
increased by 25%



Gross margin  
increased by 1.7% to 22.4%



EBITDA improved by \$0.9m to  
a profit of \$279,000



\$0.6m positive operating  
cash flow

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Revenue increased to US\$12.6 million  
from US\$10.1 million in 2015

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Gross Margin increased from 20.7% to 22.4%

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Adjusted EBITDA profit of \$279,000 which is a \$887,000  
improvement compared to a \$608,000 loss in 2015

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Positive operating cash flows of \$0.6m  
compared to \$0.5m in 1<sup>st</sup> half 2015

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# Chairman and CEO Report

## Financial Highlights

- ✓ **Significant Revenue Growth** - Revenue for the 6 months ended 30 June 2016 was \$18.7 million, a 38% increase compared to the same period last year. This improvement was delivered through increasing demand for existing EC motors, the start of ECR2 motor and SCS Connect sales.

With five consecutive quarters of US Dollar revenue growth, this positive trend should continue as our new products continue to ship to customers over coming months and we strive to win new contracts that will start in 2017.

- ✓ **Gross margin improving to 22.4%** - Further product cost reductions were realised as continuing supply chain improvement activities started to flow in the half.
- ✓ **Positive EBITDA** - Earnings before interest, taxation, depreciation, amortisation and impairment (EBITDA) was a profit of \$279,000 which is an \$887,000 improvement compared to an EBITDA loss of \$608,000 for the same period last year and a loss of \$2.0 million for the full 2015 year.

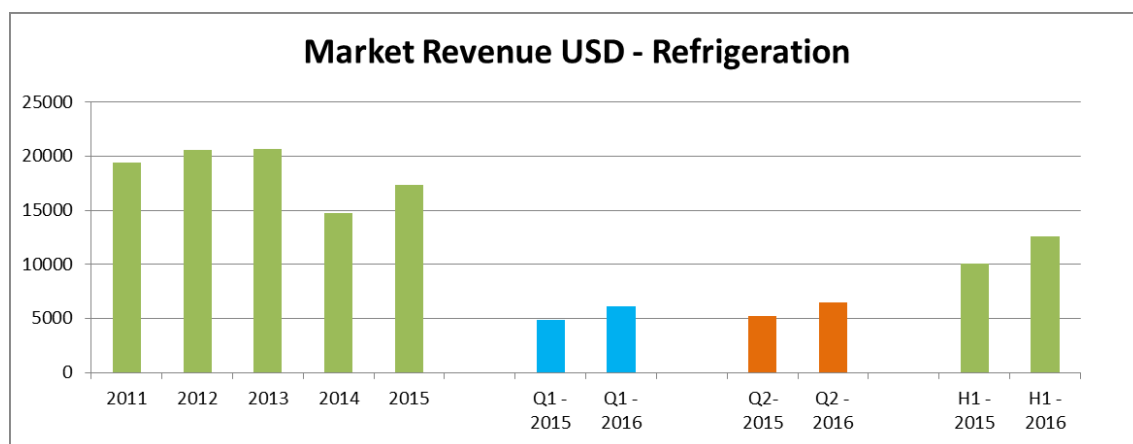
EBITDA has been normalised to remove the currency revaluation impact of the mandatory convertible preference shares, which is not relevant when assessing trading performance. The table below shows the calculation of adjusted EBITDA.

	\$000's		
	H1 2016	H1 2015	FY 2015
Earnings before interest and taxation (EBIT)	(703)	(211)	(1,802)
Depreciation, amortisation and impairment	748	223	399
EBITDA	45	12	(1,403)
Currency revaluation of the preference shares – loss / (gain)	234	(620)	(565)
EBITDA adjusted	\$279	(\$608)	(\$1,968)

*The effective NZD / USD rate in the period was 0.68 compared to 0.75 for the 1st half 2015.*

- ✓ **Cash at \$2.5 million** – As a result of a continued strong focus on cash cycle performance.

## Revenue



### *Revenue growth trend (including motors and SCS Connect)*

The strong demand we experienced in Q1 2016 continued into Q2. US Dollar revenue growth in Q1 was 26% and in Q2 it was 24%. All regions experienced customer demand at higher levels than the same period in 2015.

Latin America US Dollar revenue increased 20% compared to 2015. This growth is attributed to Wellington gaining share with several key customers and the commencement of volume sales of the SCS Connect product.

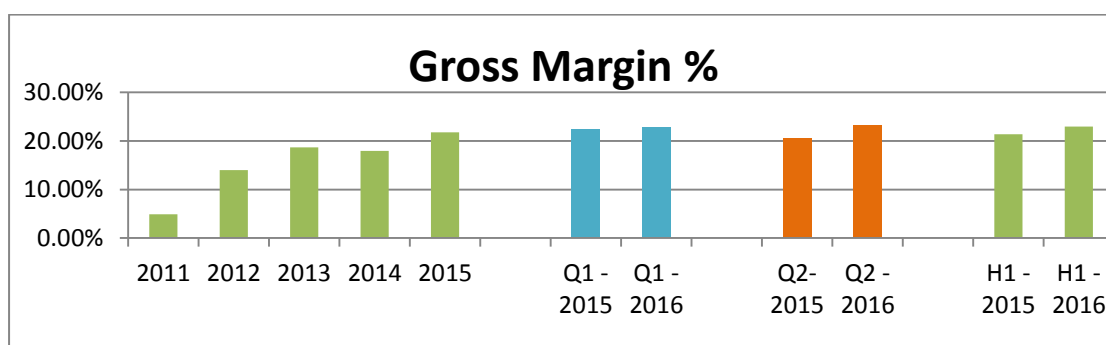
USA and Canada grew 119%, attributed primarily to strong demand for the new ECR2 motor in support of OEM's preparing for the new Department of Energy 2017 (DOE17) energy standards.

Asia Pacific region (APAC) grew 16% with stable ordering patterns from major customers. The Chinese market in this region is not as heavily reliant on EC motors so the focus is the continuing support of our South East Asian customer base and winning customers for SCS Connect.

Europe, Middle East and Africa (EMEA) grew 43%. This growth performance is of particular note after a disappointing 2015. It is attributed primarily to sales to new customers won at the end of 2015. These customers are in the ice-cream freezer, supermarket display and bottle cooler markets. The EMEA market continues to be the company's most competitive, price sensitive and politically unstable market but we are succeeding in winning business.

## Gross profit

Gross Margin improved to 22.4% and is expected to continue to increase over coming months, albeit at a slower rate as much of the readily accessible product cost reduction opportunities have been realised. All of our suppliers in Vietnam, China and Malaysia are continuing to support with further cost improvements as our volumes grow.

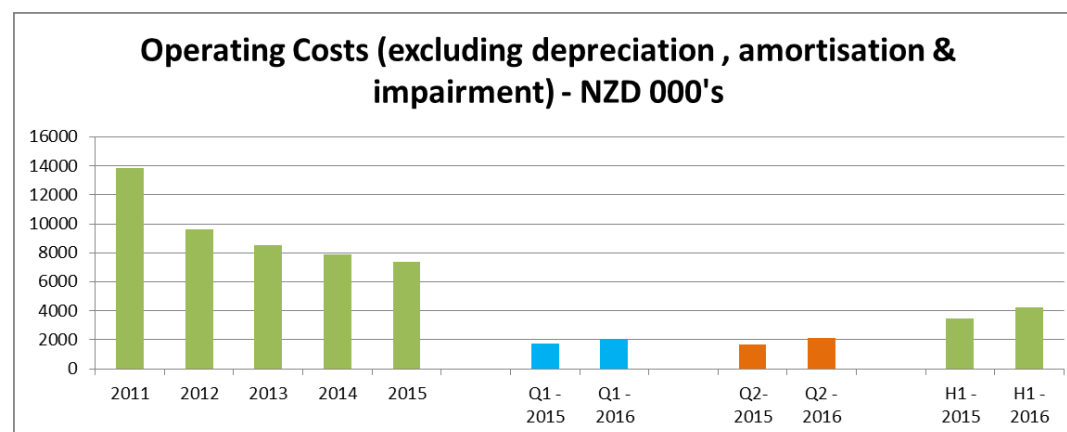


### *Gross Margin Trend*

## Operating costs

The charts below shows the trend in operating costs over the last five and a half years, including first half 2016 year over year comparison. This demonstrates our continued cost management excellence.

The first half of 2016 was the first time in four years that company decided to add a number of new key skills, necessary to win and support new business.



**Operating Cost Trends**

Operating costs for the six months ended 30 June 2016 increased to \$4.2m from \$3.4m for the comparable period last year.

The lower NZ Dollar/US Dollar exchange rate meant that NZ Dollar reported amounts for offshore office costs were higher by \$0.3m.

The remaining \$0.5m of the operating cost increase was due to the addition of necessary new skills in engineering, customer management and field service to support the new SCS Product growth, additional marketing costs required to support the development of Wellington's new products and selected salary adjustments to retain key skills. The investment in skills over the first six months of 2016 is consistent with our strategy of execution excellence and capitalising on new growth opportunities.

Amortisation has increased by \$0.5m due to the commencement of amortisation of previously capitalised development costs for the ECR2 motor and SCS Connect products, given that these products are now commercially available.

## Balance Sheet

Operating activities generated a cash inflow for the period of \$0.6 million, largely the result of reduced working capital, which was based on improved collection processes. The loss for the period of \$1.2m includes \$1.1m of non-cash charges, so excluding working capital changes Wellington's operating cash performance remains close to breakeven.

Inventory at 30 June 2016 was \$4.0 million, a \$0.3 million increase since 31 December 2015. This slight increase in inventory is a result of additional strategic inventory in customer regions to manage short lead-time orders, and initial investment in SCS Connect inventory as we position for the expected growth of that product. Wellington is operating at close to 7 inventory turns per annum, compared to the 3 turns seen at the end of 2014.



During the period Wellington invested \$1.1 million in plant & equipment and in new product development, equivalent to the same period last year and \$2.2 million for the full 2015 financial year.

Cash at the end of the period was \$2.5 million compared with \$2.9 million at 31 December 2015.

## Product update

Sales of our new SCS Connect and ECR2 products in the first half of 2016 demonstrates that our new product strategy has had a successful start and we are confident those products will continue to win new customers and gain access to new markets.



**SCS Connect** – Our first major customer for SCS Connect received product in volume in the first half and we expect that customer to meet forecast expectations for the 2016 year. This customer has awarded further new business in other regions within the Americas, which we expect to start shipping in first half of 2017. Other customers are continuing with field trials, which include testing of cloud based business reporting, equipment-monitoring and digital marketing that will help customers improve cooler fleet management performance and grow beverage sales.

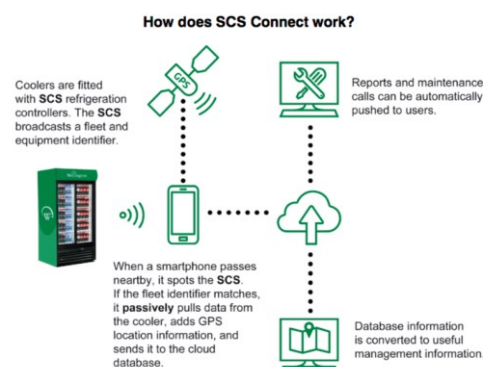
We are working on new business opportunities that we are targeting to convert by the end of 2016 to deliver revenue starting in the first half of 2017. We continue to market the SCS Connect solution in new geographies (Europe, the Middle East and Africa) and are exploring new market segments beyond beverage coolers where the SCS Connect solution could add value.

**ECR2** – In addition to the three customer wins we reported in our most recent Annual Report, we have won a further large customer for the ECR2 motor. This customer will begin volume shipments in the second half of 2016, with annual volumes in the 50,000 units range. In total we have secured customers for ECR2 with annual run-rate volumes of approximately 150,000 units per year – a great start for this new product. Of the four customers won, three are in the supermarket display and food service market and one is in the bottle cooler market.





**Product Roadmap** – The market response to both SCS Connect and ECR2 has been extremely positive, with feedback from our customers that both products are considered best in class. Our consumer food and beverage branded customers take twelve to eighteen months to test and evaluate new technology before adopting and we are now twelve months into those approval cycles. This gives us the confidence to make further measured investment in both platforms. Design enhancements on both ECR2 and SCS Connect are already underway and will be launching within the next twelve months. These will deepen our chances of winning further business with existing customers and broaden the market opportunity.



We continue to work on three core business development and product development areas:

- 1) **A broader portfolio of ‘Cloud Connected’ cooler fleet management solutions** with software, services and digital marketing solutions that help customers connect with consumers and better manage their cooler fleet.
- 2) **Higher performance EC motors and airflow accessories** to further improve refrigeration performance and gain broader access to higher value refrigeration markets.
- 3) **Joint product development initiatives with our strategic suppliers** in Vietnam and China to bring a new range of low cost and highly efficient motors to market. This is line with our market diversification strategy.

## 2016 Strategic Priorities Update



**Asset Tracking**



**Usage Optimisation**



**HACCP logging**



**Maintenance Management**

Our focus for 2016 is heavily weighted towards new revenue generation. The team is making considerable progress in all areas.

1. Further improve customer diversification by expanding the geographical customer base.  
18% volume growth in our EC motor business resulting from increased demand in the Americas and Asia Pacific regions, customer wins in Europe and growing ECR2 motor sales. Six new customers were added in the half with volume shipments commencing for these customers.
2. Develop new customer relationships and grow revenues in the supermarket segment.  
Increasing shipments of ECR1 Fan Pack solutions to large UK based supermarket chains via our UK distribution partner.
3. Sell the new ECR2 motor targeting supermarket customers and bottle cooler customers.  
Further new customers wins in Europe and North America for the ECR2 motor in both supermarket display and bottle coolers applications.
4. Sell the SCS Connect fleet management solution to large global beverage brands and expand the marketing process outside the beverage market.  
The successful start of our SCS Connect business with over 20,000 units sold for use by a global beverage customer, including bundled data services. SCS Connect field trials continue

and have expanded with progress in Asia and the commencement of new trials in North America, Europe, Africa and Latin America.

5. Further optimise the electronics supply chain to further lower costs and reduce electronic component lead-times

The Company continued to develop and expand its supply chain capabilities to support its growth rate of 20%-30% a year. All of our supplier partners had notable changes in their operations during the first half that support Wellington's growth plans.



Our strategic supplier partner East West Manufacturing Vietnam has an installed factory capacity for motors and electronics that meets our growth needs with significant flexibility above our planned requirements.

In the first half of 2016 the East West Vietnam factory passed several important Wellington customer audits, reinforcing our commitment to quality. In June 2016 East West completed a minority recapitalisation with a large US based private equity fund to provide growth capital and

assist with capacity expansion to ensure they continue to meet Wellington's growth needs.

Our EC motor supplier, Changzhou Match-Well has been a key partner to Wellington since 2005 and supports our global customer base.

In March 2016, the Wellington CEO attended the opening of Changzhou Match-Well's new modern 60,000 m2 factory premises in the Hi-Tech District of Changzhou City, China. This new facility has a dedicated factory for Wellington's motor products and provides significant capacity for growth.



Wellington's Singapore headquartered electronics manufacturing supplier MEI produces electronic parts for Wellington in its North Malaysia factory. MEI has provided manufacturing services for Wellington since 2010.

In the first half of 2016, MEI scaled production of the SCS Connect product to support Wellington's new product launch and has an installed capacity to meet our customers' requirements throughout 2017.

## Outlook

### 2016

The Company will continue to build on the success of its new product launches, winning new EC motor customers, expanding the SCS Connect customer trial programme into new countries and winning new SCS Connect business.

Consistent with the seasonality in our business, and due to some larger customers deferring some Q3 demand into Q4 and Q1 2017, we are expecting an EBITDA loss in Q3. Whilst we have the usual minimal order visibility for the fourth quarter, we remain confident that the balance of 2016 will see continued sales growth in our core EC motors and further sales of the new ECR2 and SCS Connect products.

We are leaving previous revenue and profit guidance unchanged with expected revenue for the full 2016 financial year to be significantly higher than 2015, possibly by as much as 30%. The EBITDA expectation for 2016 continues to be for a small loss to a modest EBITDA profit.

The significant revenue growth we are seeing in 2016, expected to increase even further as we enter 2017, coupled with customer deferral of orders from Q3 into Q4, is putting some pressure on short term working capital. The Company is currently negotiating working capital support through a debt facility and the Board is confident that this will be obtained.

### 2017

Customer delivery, product quality performance and product support in the field are core aspects of our growth plans. Management and support of new product adoption processes and managing a much broader range of customer relationships is critical for the Wellington team as it targets 20-30% annual revenue growth. It is anticipated that the need for new skills will continue as the business continues to grow and shifts more of its focus towards the SCS Connect 'Internet of Things' business and the software and services needed to support customers in that space.

Over the period from 2012 to 2015 we reduced total headcount by 10% but at the same time increased the number of staff involved in customer facing activities and new product development. As we enter 2017 we are looking to grow the skill base to support profitable revenue growth.

Consistent with our comments at the 2016 Annual General Meeting; in 2017 we expect continued growth in our SCS Connect and ECR2 products, with preliminary forecast models showing SCS volumes more than doubling in 2017 and growing by around 50% each year for the foreseeable future. The ECR2 motor business will also continue to grow as more display case and food equipment manufacturers adopt energy efficient motors.

Preliminary forecasts for 2017 show continued revenue growth next year in the 20% to 30% range with EBITDA performance in the low millions of dollars. Delivering this growth may require additional working capital and further investment in our skill base as we move through 2017.

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Tony Nowell  
Chairman

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Greg Allen  
Chief Executive

#### Footnote:

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 and the impact of fair value changes. The calculation of EBITDA is set out on page 5.

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

# Consolidated Interim Statement of Comprehensive Income

	Note	Six months ended Unaudited 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended Audited 31 Dec 2015 \$000s
<b>Revenue</b>	2.1,2.2	<b>18,665</b>	13,537	24,572
Cost of goods sold		<b>(14,486)</b>	(10,736)	(19,311)
Gross profit		<b>4,179</b>	2,801	5,261
Other income	2.3	<b>29</b>	604	691
Operating expenses	2.4	<b>(4,163)</b>	(3,393)	(7,355)
Earnings before interest, taxation, depreciation and amortisation		<b>45</b>	12	(1,403)
Depreciation	3.5	<b>(135)</b>	(111)	(251)
Amortisation	3.6	<b>(613)</b>	(112)	(148)
Loss before interest & taxation		<b>(703)</b>	(211)	(1,802)
Finance income	4.2	<b>6</b>	28	49
Finance expenses	4.2	<b>(531)</b>	(468)	(970)
Loss before income tax		<b>(1,228)</b>	(651)	(2,723)
Income tax expense		<b>(15)</b>	(20)	(57)
<b>Loss for the period</b>		<b>(1,243)</b>	(671)	(2,780)
Other comprehensive income:				
<i>Items that may be reclassified subsequently to the profit or loss:</i>				
Exchange differences on translating operations		<b>(228)</b>	679	419
Cash flow hedge		<b>(24)</b>	(52)	28
Income tax relating to comprehensive income		-	-	-
Other comprehensive (loss) / income for the period		<b>(252)</b>	627	447
<b>Total comprehensive loss for the period</b>		<b>(\$1,495)</b>	(\$44)	(\$2,333)
Loss for the period attributable to the Owners of the Company		<b>(\$1,243)</b>	(\$671)	(\$2,780)
<b>Total comprehensive loss attributable to the Owners of the Company</b>		<b>(\$1,495)</b>	(\$44)	(\$2,333)
Basic earnings per share – cents	2.6	<b>(0.48)</b>	(0.38)	(1.29)
Diluted earnings per share – cents	2.6	<b>(0.48)</b>	(0.38)	(1.29)

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

## Consolidated Interim Statement of Movements in Equity

	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
<b>Unaudited for the six months ended 30 June 2016</b>					
Equity at beginning of period		117,184	(109,648)	(1,938)	5,598
Loss for period		-	(1,243)	-	(1,243)
<b>Other comprehensive income:</b>					
Exchange differences on translation operations		-	-	(228)	(228)
Cash flow hedge		-	-	(24)	(24)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(1,243)	(252)	(1,495)
Share option compensation expensed		-	-	38	38
Contributions of equity net of costs	4.3	7	-	-	7
Lapsed part paid shares		-	-	-	-
Equity at end of period		117,191	(110,891)	(2,152)	4,148
<b>Unaudited for the six months ended 30 June 2015</b>					
Equity at beginning of period		114,308	(106,994)	(2,336)	4,978
Loss for period		-	(671)	-	(671)
<b>Other comprehensive income:</b>					
Exchange differences on translation operations		-	-	679	679
Cash flow hedge		-	-	(52)	(52)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(671)	627	(44)
Share option compensation expensed		-	-	42	42
Contributions of equity net of costs	4.3	2,882	-	-	2,882
Lapsed part paid shares		(4)	25	(25)	(4)
Equity at end of period		\$117,186	(\$107,640)	(\$1,692)	\$7,854

Audited for year ended 31 December 2015

Equity at beginning of period	114,308	(106,994)	(2,336)	4,978
Loss for period	-	(2,780)	-	(2,780)
<b>Other comprehensive income:</b>				
Exchange differences on translation operations	-	-	419	419
Cash flow hedge	-	-	28	28
Income tax relating to other comprehensive income	-	-	-	-
Total comprehensive income	-	(2,780)	447	(2,333)
Share option compensation expensed	-	-	77	77
Contributions of equity net of costs	2,887	-	-	2,887
Lapsed part paid shares	(11)	126	(126)	(11)
<b>Equity at end of period</b>	<b>\$117,184</b>	<b>(\$109,648)</b>	<b>(\$1,938)</b>	<b>\$5,598</b>

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

# Consolidated Interim Statement of Financial Position

	Note	Six months ended Unaudited 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended Audited 31 Dec 2015 \$000s
<b>Current Assets</b>				
Cash and cash equivalents		<b>2,518</b>	3,379	2,880
Trade and other receivables	3.1	<b>7,814</b>	9,896	5,918
Derivative financial instruments		-	-	24
Inventories	3.2	<b>3,958</b>	3,504	3,700
Total current assets		<b>14,290</b>	16,779	12,522
<b>Non-Current Assets</b>				
Plant and equipment	3.5	<b>1,015</b>	1,068	1,009
Intangible assets	3.6	<b>5,428</b>	4,317	5,300
Total non-current assets		<b>6,443</b>	5,385	6,309
Total assets		<b>20,733</b>	22,164	18,831
<b>Current Liabilities</b>				
Trade and other payables	3.3	<b>10,252</b>	9,118	7,681
Deferred income	2.2	<b>454</b>	27	149
Provisions	3.4	<b>244</b>	277	215
Borrowings – current portion	4.1	<b>5,588</b>	-	-
Derivative financial instruments		-	56	-
Total current liabilities		<b>16,538</b>	9,478	8,045
<b>Non-Current Liabilities</b>				
Borrowings	4.1	<b>47</b>	4,832	5,188
Total liabilities		<b>16,585</b>	14,310	13,233
Net assets		<b>\$4,148</b>	\$7,854	\$5,598
<b>Equity</b>				
Contributed equity	4.3	<b>117,191</b>	117,186	117,184
Accumulated losses		<b>(110,891)</b>	(107,640)	(109,648)
Other reserves		<b>(2,152)</b>	(1,692)	(1,938)
Total equity		<b>\$4,148</b>	\$7,854	\$5,598

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



# Consolidated Interim Cash Flow Statement

	30 Jun 2016	30 Jun 2015	Year ended 31 Dec 2015
	Unaudited	Unaudited	Audited
	\$000s	\$000s	\$000s
	Note		
<b>Cash flows from operating activities</b>			
Receipts from customers exclusive of GST/VAT	16,903	10,469	25,479
Payments to suppliers and employees exclusive of GST/VAT	(16,381)	(9,966)	(24,662)
Interest received	6	18	39
Interest paid	(154)	(143)	(289)
Taxation paid	(25)	(2)	(68)
Net GST received	258	136	335
Net cash inflow from operating activities	607	512	834
<b>Cash flows from investing activities</b>			
Payments for plant & equipment	(181)	(166)	(233)
Payments for intangible assets	(931)	(897)	(1,973)
Proceeds from sale of plant & equipment	1	-	2
Net cash outflow from investing activities	(1,111)	(1,063)	(2,204)
<b>Cash flows from financing activities</b>			
Finance lease borrowing	76	-	-
Finance lease repayments	(6)	-	-
Cash proceeds from share issues, net of issue costs	7	2,878	2,876
Net cash inflow from financing activities	77	2,878	2,876
<b>Net (decrease) / increase in cash and cash equivalents</b>			
	(427)	2,327	1,506
Cash and cash equivalents at the beginning of the financial period	2,880	1,196	1,196
Effect of exchange rate movements on cash	65	(144)	178
Cash and cash equivalents at end of period	\$2,518	\$3,379	\$2,880

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

	Six months ended Unaudited 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended Audited 31 Dec 2015 \$000s
<b>Reconciliation of loss for the period to net cash inflow from operating activities</b>			
<b>Loss after taxation for the period</b>	<b>(1,243)</b>	<b>(671)</b>	<b>(2,780)</b>
Adjustments for:			
Depreciation and amortisation	748	223	399
Gain on disposal of plant & equipment	(1)	-	(2)
Share based payments	38	42	77
Amortisation of borrowing	377	325	681
Change in fair value of embedded option	-	(10)	(10)
Inventory provision movements	(176)	(19)	(2)
Doubtful debt provision movements	(3)	(8)	11
Provision for warranty movements	76	23	(44)
	<b>(184)</b>	<b>(95)</b>	<b>(1,670)</b>
Changes in:			
Net foreign exchange differences	(127)	184	(350)
Increase in trade and other receivables	(1,888)	(4,578)	(619)
(Increase) / decrease in inventories	(70)	1,189	976
Increase in trade and other payables	2,876	3,812	2,497
<b>Net cash inflow from operating activities</b>	<b>\$607</b>	<b>\$512</b>	<b>\$834</b>

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

# Notes to the Interim Financial Statements

for the six months ended 30 June 2016

## 1. Basis of preparation

### 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, connected controllers and fans for worldwide use.

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

These consolidated interim financial statements have been approved for issue on 29 August 2016 and have not been audited.

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 2015.

### 1.2. Accounting Policies

The consolidated interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and NZ IAS 34, ‘Interim Financial Reporting’.

The Company and its subsidiaries are profit oriented entities.

All significant accounting policies adopted in the preparation of these consolidated interim financial statements have been applied on a basis consistent with those used in the audited financial statements of the Group for the year ended 31 December 2015. Trade and other payables comparative amounts in the statement of financial position have been reclassified to conform to the current year’s presentation. Refer to Notes 3.3 and 2.2 for more details.

#### *(a) Going concern convention*

The Company meets its day-to-day working capital requirements out of its available cash resources. The Company is currently negotiating a debt facility in the ordinary course of business.

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.

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

#### *(b) 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.

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.

## 2. Results for the period

### 2.1 Segment information

#### (a) Reportable segments

At 30 June 2016, the Group is organised on a global basis into one operating segment – the 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.

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Revenue by Destination			
Americas	13,575	10,134	17,619
Asia / Pacific (APAC)	1,950	1,531	3,004
Europe / Middle East / Africa (EMEA)	3,140	1,872	3,949
Total	\$18,665	\$13,537	\$24,572

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

### 2.2 Revenue

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Product revenue	18,681	13,512	24,543
Services revenue	(16)	25	29
Total	\$18,665	\$13,537	\$24,572

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.

Revenue from the provision of services is recognised when services are rendered to the buyer. The Company has received income of \$299,000 (June 2015 \$27,000) in connection with the development of a new motor product. This income has been deferred and will be recognised in the income statement when the motor development is completed and products are sold pursuant to a licence agreement. The Company has also received revenue of \$155,000 (June 2015 \$-) from the sale of data services for its SCS Connect product. That income also has been deferred and will be recognised in the income statement over the service period.

### 2.3 Other income

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Net foreign exchange gains (note 2.5)	-	546	568
Licence fees	27	49	113
Other	2	9	10
Total	\$29	\$604	\$691

### 2.4 Operating expenses

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Employee benefits	3,063	2,418	5,153
Net foreign exchange losses (note 2.5)	29	-	-
Rental expense relating to operating leases	145	121	283

## 2.5 Foreign exchange gains / (losses)

Net foreign exchange gains and losses included in other income (note 2.3) and other operating expenses (note 2.4) include an unrealised gain / loss arising from the revaluation of NZD denominated convertible preference shares. The Company's functional currency is USD so NZD debt is required to be revalued at the period end exchange rate and the resulting gain / loss recognised in the statement of comprehensive income.

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
(Loss) / gain on revaluation of the preference shares	(234)	620	565
Net foreign exchange gains / (losses) from operations	205	(74)	3
Total net foreign exchange gains / (losses)	(\$29)	\$546	\$568

## 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 0.48 cents (June 2015 – loss of 0.38 cents) is calculated by dividing the loss attributable to equity holders of the Company of \$1,243,000 (June 2015 - \$671,000) by the weighted average number of ordinary shares in issue during the year of 256,896,000 (June 2015 – 174,337,000).

Diluted EPS of a loss of 0.48 cents (June 2015 - loss of 0.38 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 30 June, 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 antidilutive:

Numbers of shares	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Part paid shares	12,482,655	6,133,787
US employee share options	1,818,386	673,510
Share warrants issued to East West Manufacturing	-	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 (2015 – 25,211,740) preference shares being the minimum number of ordinary shares that will be issued upon conversion (note 4.1).

### 3. Operating assets and liabilities

#### 3.1. Trade and other receivables

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Trade receivables	7,423	9,584	5,436
Provision for doubtful debts	(144)	(145)	(152)
Net trade receivables	7,279	9,439	5,284
Prepayments	319	237	361
VAT/GST refunds due	174	184	178
Income tax refund due	24	5	14
Other receivables	18	31	81
	<b>\$7,814</b>	<b>\$9,896</b>	<b>\$5,918</b>

#### 3.2. Inventories

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Finished goods – at cost	3,168	2,504	3,029
Work in progress – at cost	592	568	526
Raw materials – at cost	332	793	467
Less inventory provisions	(134)	(361)	(322)
Total inventories	<b>\$3,958</b>	<b>\$3,504</b>	<b>\$3,700</b>

#### 3.3 Trade and other payables

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Trade payables	9,470	8,577	6,927
Accrued expenses	430	234	424
Employee entitlements	352	307	330
	<b>\$10,252</b>	<b>\$9,118</b>	<b>\$7,681</b>

#### 3.4 Provisions

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Warranty provisions			
Carrying amount at start of period	215	259	259
Additional provisions recognised	76	57	97
Amounts used	(38)	(80)	(184)
Exchange adjustment	(9)	41	43
Carrying amount at end of period	<b>\$244</b>	<b>\$277</b>	<b>\$215</b>

The Group sells electric motors with warranty periods of up to five years. The terms of the warranty provide that the Company will repair or replace items that fail to perform satisfactorily. A provision is 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.

### 3.5 Plant and equipment

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Net book amount at start of period	1,009	880	880
Additions	181	166	233
Depreciation	(135)	(111)	(251)
Disposals	-	-	-
Exchange adjustment	(40)	133	147
Net book amount at end of period	\$1,015	\$1,068	\$1,009
<b>Depreciation</b>			
Plant and equipment	108	85	198
Office equipment, furniture & fittings	27	26	53
	\$135	\$111	\$251
<b>Sale of plant and equipment</b>			
Gain on disposal	\$1	\$-	\$2

#### Capital commitments

Capital commitments contracted for at 30 June 2016 amounted to \$153,000 (June 2015 \$153,000)

### 3.6 Intangible assets

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Net book amount at start of period	5,300	3,031	3,031
Additions	931	897	1,973
Amortisation	(613)	(112)	(148)
Disposals	-	-	-
Exchange adjustment	(190)	501	444
Net book amount at end of period	\$5,428	\$4,317	\$5,300
<b>Amortisation and impairment</b>			
Amortisation of intangible assets	\$613	\$112	\$148
Impairment of intangible assets	\$-	\$-	\$-
<b>Research and development</b>			
Research and development costs expensed	\$292	\$213	\$414
Development time capitalised	(\$606)	(\$629)	(\$1,342)



## 4. Capital and financing costs

### 4.1 Borrowings

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Current portion			
Mandatory convertible preference shares	5,565	-	-
Finance lease liability	23	-	-
	<b>\$5,588</b>	<b>\$-</b>	<b>\$-</b>
Non-Current portion			
Mandatory convertible preference shares	-	4,832	5,188
Finance lease liability	47	-	-
	<b>\$47</b>	<b>\$4,832</b>	<b>\$5,188</b>

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

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Liability at start of period	5,188	4,507	4,507
Amortisation	377	325	681
Liability at end of period	<b>\$5,565</b>	<b>\$4,832</b>	<b>\$5,188</b>

The effective interest rate on the liability is 19.15% taking into account costs of issue. The liability has been classified as current because it will be settled by mandatory conversion into ordinary shares before 30 June 2017. The carrying amount of the Group's mandatory convertible preference shares is denominated in NZD.

#### Finance lease liability

In March 2016 the Company entered into a 36 month equipment lease. The amount financed was \$76,000 and repayments in the period ended 30 June 2016 amounted to \$6,000. The effective interest rate is 9%.

## 4.2 Finance income and expenses

	Six months ended 30 Jun 2016 \$000s	30 Jun 2015 \$000s	Year ended 31 Dec 2015 \$000s
Finance income			
Change in fair value of financial derivative	-	10	10
Other interest income	6	18	39
	<b>\$6</b>	<b>\$28</b>	<b>\$49</b>
Finance expense			
Amortisation of borrowing	377	325	681
Preference shares coupon	125	125	252
Other interest	29	18	37
	<b>\$531</b>	<b>\$468</b>	<b>\$970</b>

## 4.3 Contributed equity

	30 Jun 2016 Shares	Six months ended 30 Jun 2015 Shares	30 Jun 2016 \$000s	30 Jun 2015 \$000s
Ordinary shares – fully paid (a)	231,684,047	231,684,047	117,155	117,155
Ordinary shares – partly paid (b)	12,482,655	6,133,787	36	31
US employee share options (c)	1,818,386	673,510	-	-
Share warrants (d)	-	5,300,000	-	-
Preference shares (note 4.1)	25,211,740	25,211,740	-	-
Total shares and options on issue	<b>271,196,828</b>	<b>269,003,084</b>	<b>\$117,191</b>	<b>\$117,186</b>

### (a) Ordinary shares – fully paid

	30 Jun 2016 Shares	Six months ended 30 Jun 2015 Shares	30 Jun 2016 \$000s	30 Jun 2015 \$000s
Opening balance of ordinary shares on issue	231,684,047	126,373,117	117,155	114,273
Issues of ordinary shares during the period:				
- May / June 2015 issues at 3 cents for cash	-	105,310,930	-	3,159
- Share issue costs	-	-	-	(277)
Ordinary fully paid shares on issue at period end	<b>231,684,047</b>	<b>231,684,047</b>	<b>\$117,155</b>	<b>\$117,155</b>

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 2016 Shares	Six months ended 30 Jun 2015 Shares	30 Jun 2016 \$000s	30 Jun 2015 \$000s
Partly paid shares on issue at start of period	8,993,524	6,941,452	29	35
Issued	3,489,131	-	7	-
Lapsed	-	(807,665)	-	(4)
Ordinary part paid shares on issue at period end	<b>12,482,655</b>	<b>6,133,787</b>	<b>\$36</b>	<b>\$31</b>

(c) US employee share options (numbers)

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Options outstanding at start of period	1,058,373	288,647
Granted	760,013	384,863
Outstanding at end of period	1,818,386	673,510

(d) Share warrants (numbers)

	Six months ended 30 Jun 2016	Six months ended 30 Jun 2015
Options outstanding at start of period	-	5,300,000
Outstanding at end of period	-	5,300,000

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

## 5. Other information

### 5.1 Related party transactions

(a) Directors

The names of persons who are directors of the Company are on page 26.

(b) Key management personnel and compensation

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

	Six months ended 30 Jun 2016 \$000s	Six months ended 30 Jun 2015 \$000s
Salaries, fees and other short term benefits	820	730
Share based remuneration	29	35
Directors remuneration	84	85
Total	\$933	\$850

(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 partly 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.

### 5.2 Contingencies and commitments

There are no material contingent liabilities or assets (December 2015:\$nil).

# Directory

## Directors

Tony Nowell, *Chairman*  
Shawn Beck  
Dr Lisbeth Jacobs  
John McMahon  
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*  
Gerardo Gonzalez, *VP Intelligent Systems Business Unit*  
Clayton Thomas, *Sales and Marketing Director Asia-Pacific*  
Marc Tinsel, *Head of Manufacturing*  
Peter Barnes, *Global Quality Leader*  
Ron Jackson, *Secretary*

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## Auditor

PricewaterhouseCoopers  
188 Quay Street, Auckland, New Zealand

## Banker

Bank of New Zealand

## Share Registry

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New Zealand



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