Get Connected

Annual Report 2016

Contents

There are statements in this document that are “forward-looking statements”. As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations, the markets in which it competes and other factors (some of which are beyond the control of Wellington). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular, Wellington's operations and results are significantly influenced by the extent to which energy efficient motor technology is promoted in Wellington's key markets, competitor product development and demand and pricing, fluctuations in key commodity prices or costs in the countries of Wellington's suppliers, availability of key components, relative exchange rates and profitability of customers, all of which can have a substantial impact on Wellington's results of operations and financial condition. Other risks include customer concentration risk and misuse of Wellington's intellectual property.

Our Business

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 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.

*SCS Connect models only

Our Strategic Pillars

Wellington's strategy focuses on the commercial refrigeration market and two product lines supporting that market; EC motors and Cloud Connected Refrigeration controllers. The launch of its ECR2 motor ensures that Wellington continues to lead with its EC motor offering, and the introduction of its cloud connected SCS Connect platform ensures that it is delivering advanced Internet of Things (IoT) equipment, software and services to its customers. Wellington's strategy is to deliver revenue growth and positive earnings by providing customers with innovative new products supported by a low cost supply chain.

Develop & Grow EC Motor Business

- 2013 - Continuous Cost Reduction - new supply chain
- 2015 - Diversified revenue streams
- 2016 - Continuous Product Innovation - ECR2
- 2017 and beyond - ECR2 Platform expansion

Leverage Strategic Partners to grow sales and lower costs

- 2014 - Open Vietnam supply chain with East West
- 2016 - Co-develop motors in new markets
- 2017 - Technology & channel partners
- 2018 - expand regional sales capability

Launch 'Cloud Connected' Solutions business

- 2013 - SCS Connect development
- 2015 - Focus on brands & bottlers
- 2016 - Internet of Things 'solutions'
- 2017 - SCS Click retrofit device
- 2018 - Digital services expansion

The three pillars of the Company's strategy are:

✓ **Develop and grow the EC Motor business** by focusing on customer driven product development, 'bottle cooler' market growth plans, extending the sale of the ECR2 motor to supermarket and food service equipment manufacturers, diversifying motor revenue streams from new geographical markets, improving and simplifying business processes, and through continual cost reduction in the supply chain.

✓ **Leverage strategic partners to grow sales and lower costs** by focusing on accessing IoT and digital technologies through strategic partnerships. Continue to improve margins through lower cost product design and supply chain solutions and expand geographical reach with complimentary sales partnerships.

✓ **Develop and grow a 'Cloud Connected' IoT solutions business** by developing and delivering low cost wireless refrigeration control hardware for retail brands, supermarkets and manufacturers. Taking the new SCS Connect software platform to market and building on that platform with an expanded range of digital services, delivering sales success by reducing total cost of ownership of the refrigeration system and improving the operational and sales performance of the refrigerator.

Our Products

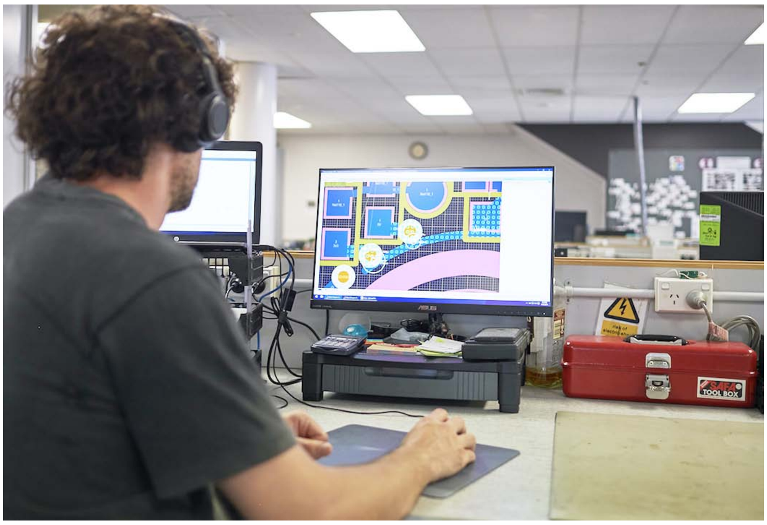
Wellington serves customers with its motor, airflow and 'connected' controller solutions for use in beverage coolers, ice cream and food freezers and supermarket display cases. The product portfolio offers a range of refrigeration solutions designed to improve refrigeration efficiency, optimise airflow and reduce the total cost of ownership by enabling customers to improve the management of their refrigeration fleet.

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

In 2016 the sale of the Company's new ECR2 Motor and SCS Connect Smart Controller commenced and product adoption by customers accelerated rapidly.

'Quiet and efficient' - The ECR2 motor offers a step improvement in EC Motor performance with lower noise, the ability to operate on any global mains voltage and increased efficiency for supermarket and bottle cooler customers. ECR2's smart control features allow power consumption to be further reduced by tuning airflow to the exact needs of the refrigeration system.

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



Product Roadmap - The market response to both SCS Connect and ECR2 has been positive, with meaningful sales in 2016, the first year in the life of both products. The feedback from customers on both products informs us of the improvements and enhancements necessary to improve reliability and provide additional functionality to solve customer problems.

Some examples of upgrades made to ECR2 within 2016 are improving the power cable manufacturing process to ensure the product is even more robust and upgrading the plastics to meet NSF food quality standards. Some examples of upgrades made to the SCS Connect are additional firmware features to ensure the devices match specific customer cooler design conditions and enhancing the cloud data-reporting offering. We rely on customer and field feedback to ensure our products always meet market needs.

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

1) An expanded portfolio of IoT devices, such as the SCS Connect, with software, data services and digital marketing solutions that help customers connect with consumers and better manage their cooler fleet and research into new wireless communications technologies and techniques for measuring and monitoring merchandise sales performance.

2) Higher performance and higher-powered EC motors and airflow accessories to further improve refrigeration performance and gain broader access to higher value commercial refrigeration markets.

3) Joint product development initiatives with our American and Chinese strategic suppliers to bring a new range of low cost and highly efficient motors to market. This is in line with our market diversification strategy.

In all areas, but more specifically in IoT software and digital services, we will search for industry partners to gain access to technologies and create the offerings that markets and customers require.

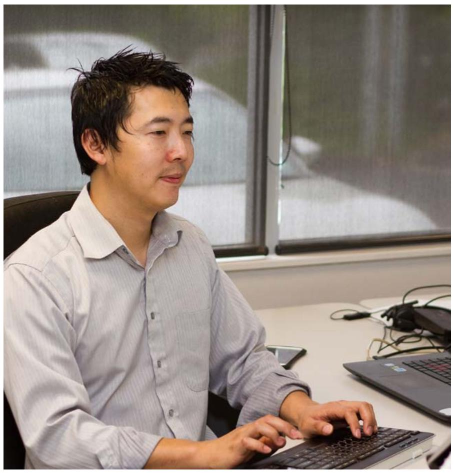
Our People

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

Sue Sieben – North America Customer Technical Leader

"As the customer facing technical representative for Wellington in North America, based in Chicago USA, I make sure our solutions meet the customer's needs from initial evaluation to end supply for their cooling applications. Our customers demand high quality products and often require me to come on site and train them in the use of our motors and controllers. I also interface with purchasing and material planning to ensure we deliver products on time. We are told by our customers that our service sets us apart – so we take pride in rapidly responding to customer's requests for support. One of the important aspects of our field technical teams is to feedback improvement opportunities to the Auckland based design team so we can ensure we are always updating our products based on direct customer feedback."

Michael Qiu – Software Architect, New Zealand

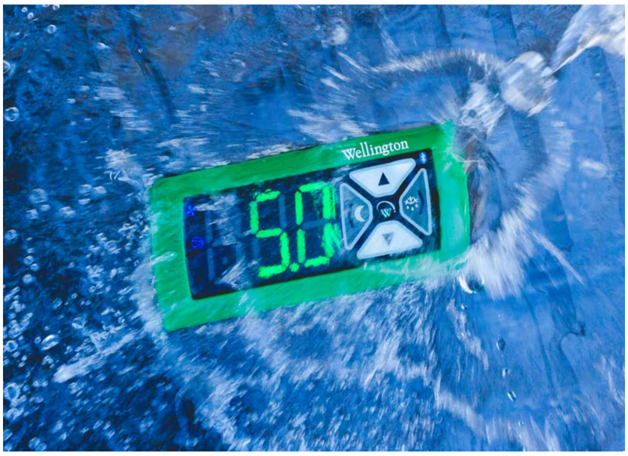


"I am part of the SCS Connect platform team working in the Internet of Things area based in Auckland, New Zealand. Wellington's SCS Connect refrigeration controller collects a large amount of telemetry from bottle coolers around the world. From there, the data is retrieved wirelessly by mobile apps that our team wrote, sent to highly available cloud infrastructure that our team setup and processed by an ever expanding set of software tools that our team has developed. From this process, we derive valuable information for our customers, like purchasing patterns and potential refrigeration hardware failures. This is all presented in a highly interactive reporting application. It has been an exciting time for me being part of the team that's showing the industry what's possible and seeing Wellington Drive progress beyond just a hardware company."

Lana Illingworth – Supply Chain Planner, New Zealand

"My office is in Auckland New Zealand and I am part of the team that ensures we understand customer product demand and manage our suppliers to ensure we deliver 'on time every time' performance. Our team must ensure that suppliers understand what components they need to buy and also how purchase orders are fulfilled. Sometimes we get very short notice orders from customers, so that is where our supply chain team really shines, chasing down urgent delivery needs and reacting well to service our customers. Our rapid growth in 2016 meant we had a few situations where we had to work with the supplier base to find supply solutions that were not expected. This was a great problem to solve and I am proud to be part of a team that can manage through those growth challenges."

Our Supply Chain Network

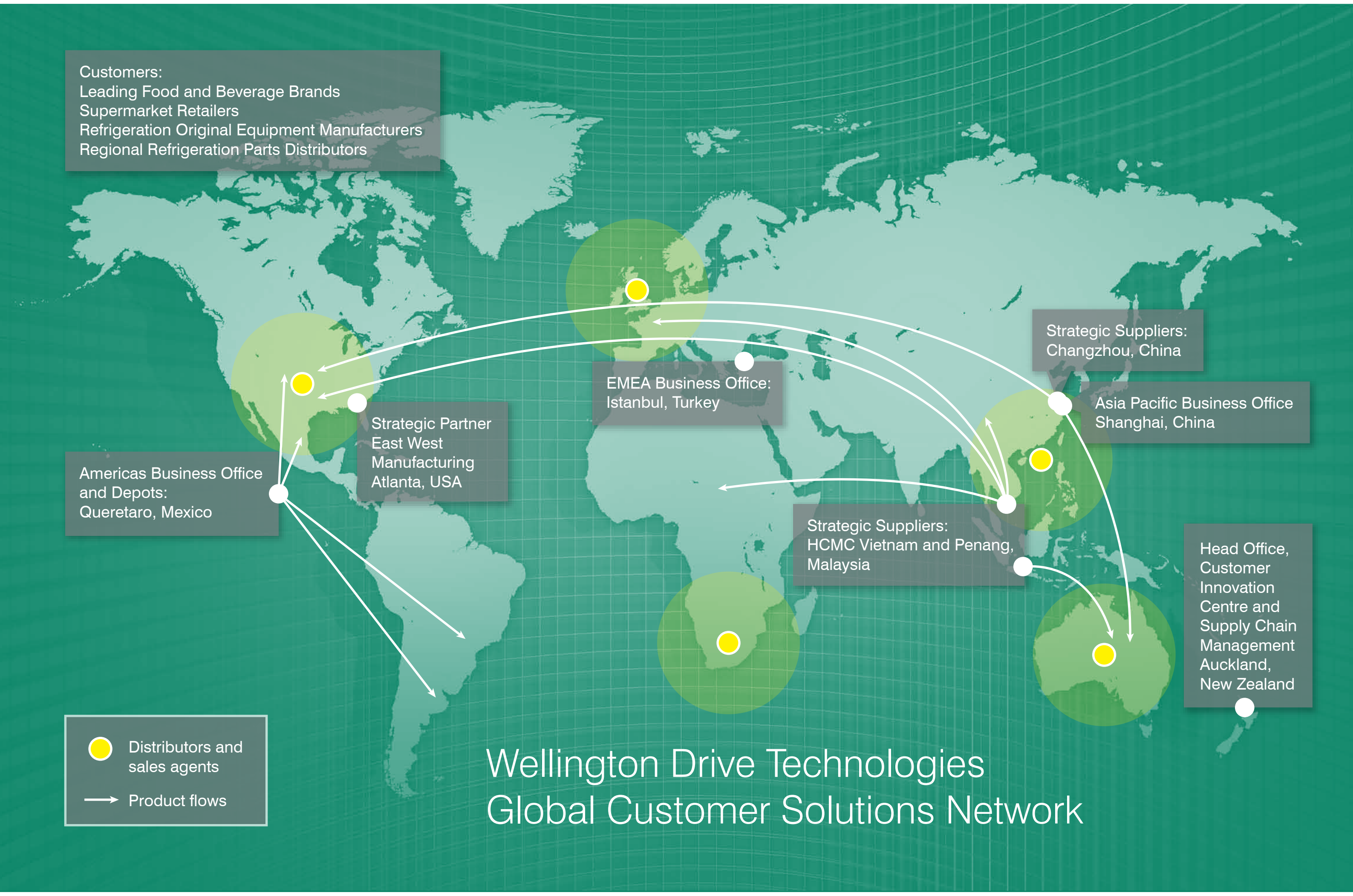


Since 2004 Wellington has delivered over 7 million motors to customers across 26 countries and has now commenced shipment of its new Cloud Connected Controller product platform.

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

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

With its supply chain partner factories in Vietnam, China, and Malaysia specialising in motor mechanical assembly, plastics design and injection moulding and electronics manufacture, and regional distribution partners in the UK and USA, Wellington has the global reach to ensure that customers receive personal attention with a high quality product range that is manufactured and delivered on time.



2016 Business Highlights

↑ Revenue increased 44%	↑ Gross margin increased to 24%
↑ SCS Connect and ECR2 contributed $6m in sales	↑ $325,000 positive EBITDA (adjusted)

Revenue growth of 44%, increasing to $NZ35m, with solid growth in all regions

Gross margin increased to 24% from 21.4% due to product volume benefits and continued supply chain productivity

SCS Connect and ECR2 contributed $6m in new product sales

Positive EBITDA of $325,000 (adjusted for preference share revaluation)

Report of the Chairman and Chief Executive Officer

2016 in Review

2016 was the year Wellington achieved its maiden EBITDA profit, a sure sign that the vigorous turnaround activity of the past five years has completed and that we are now well into the next phase of the Company's development and growth journey.

The strategy we have embarked upon is delivering clear results as we develop a range of 'Internet of Things' products and services for large food and retail brands, underpinned by our expertise in refrigeration motors, delivered through a team of customer facing and development engineering experts, and supported by a well executed low cost supply chain.

The Company sold a record 1.4 million motors in 2016, a year on year volume increase of 33% which included 1.2 million EC motors. This growth was achieved by ensuring that relationships with existing bottle cooler customers were expanded and new customers were added in the supermarket and food service sectors. Revenue grew in all of our sales regions, with Latin America and the USA a particular highlight due to the enthusiastic adoption of our new ECR2 and SCS Connect products. New motor customers were also added in Europe and Asia.

As our field teams began to sell the ECR2 motor and SCS Connect products, our development teams started to focus on the next iterations of the ECR2 and SCS platforms, using field feedback from customers to help determine how to best enhance those platforms.

The level of change and transformation in our supply chain settled down last year, allowing us to intensify our focus on product delivery and execution. The supply chain structural improvements worked on in previous years helped us achieve a Gross Margin of 24%, up from 21.4% in 2015. Cost reduction is a core skill of the business and the team continue to work on cost reduction programmes with all major suppliers.

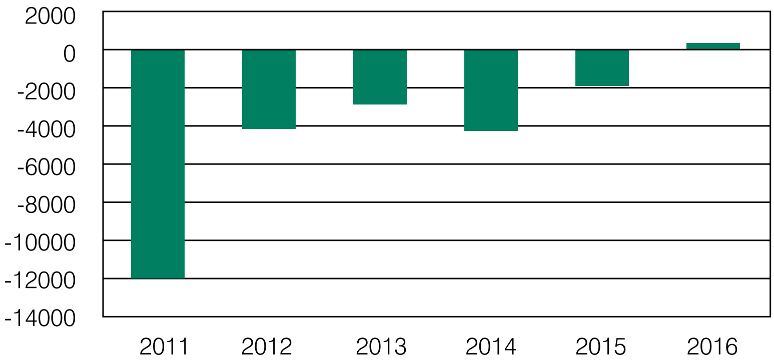
We continue to experience competitive price pressure in some markets, mainly Europe and Latin America, so Gross Margin gains were offset somewhat by selected customer price reductions needed to grow share within the bottle cooler market in those regions.

Growth performance in 2016 exceeded our expectations with revenue growing to $35 million, a 44% increase over 2015 and doubling the 2014 revenue. The new SCS Connect and ECR2 products contributed $6 million to reported revenue.

Wellington achieved its maiden full year EBITDA profit, with an EBITDA profit adjusted (see note 1. on page 15) of $325,000, which was a $2.3 million improvement on 2015. EBIT improved by $0.5 million to a $1.3 million loss. The net loss for the year was $2.5 million impacted by the commencement of amortisation of capitalised development costs for the ECR2 and SCS Connect products (an increase in amortisation of $1.1 million), the revaluation of preference shares caused by exchange rate movements ($121,000 loss) and interest costs on the preference shares of $1.0 million.

The board was especially pleased with the first year of sales for our two new products, the SCS Connect and ECR2.

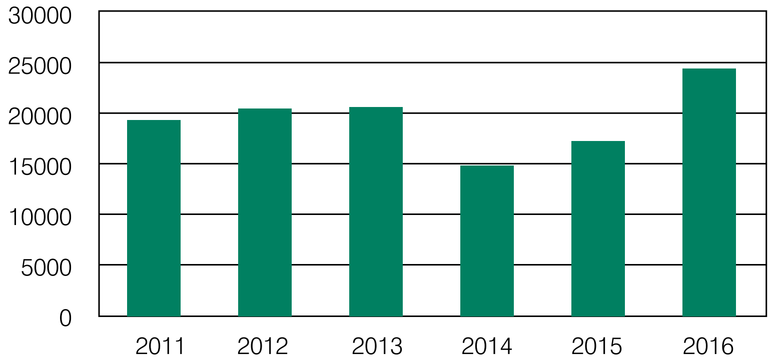
Adjusted EBITDA Profit - NZD



Revenue Performance

In US Dollar terms, revenue in 2016 was $US25 million compared to $US17.4 million in 2015. Of the record 1.4 million motors shipped in 2016, well over 100,000 were the new ECR2.

Revenue - Refrigeration USD



The revenue trend since we discontinued the ventilation business in 2013 and experienced the end-market related weakness in 2014 has been one of steady growth. The team has added customers and added products, both of which have contributed to this growth.

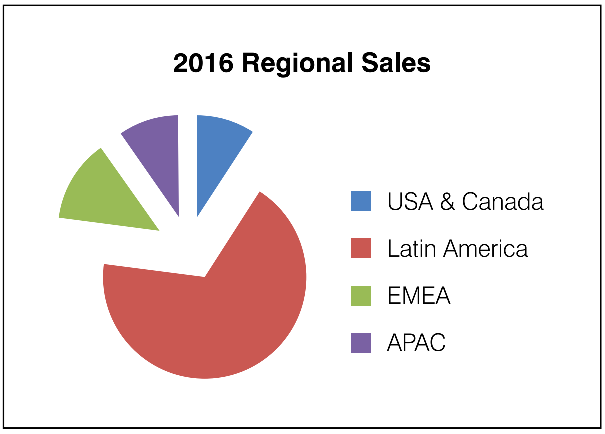
Fifteen new customers were added globally in 2016 with two of these customers being attracted by our SCS Connect products. Importantly most of these new customers are focused in the supermarket display case and food service market, as we expand beyond our traditional beverage market core.

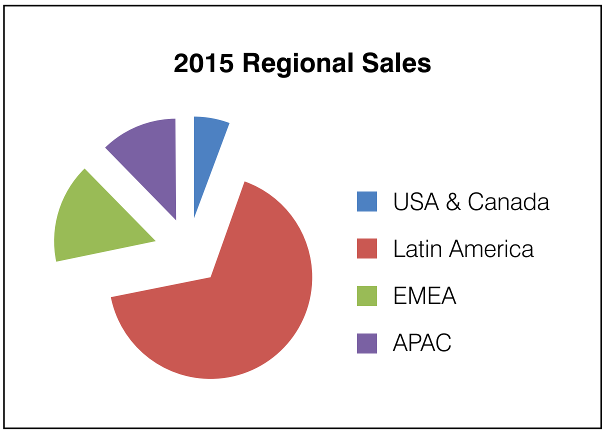
Latin America: Our Latin American business grew by 44% versus 2015, from US$11.5 million to US$16.6 million. We added two new motor customers in the region as well as experiencing stronger demand from existing bottle cooler customers, with motor volumes growing by 30%. Mexico continues to be our largest market and further growth is expected from this market in 2017 as several major customers begin to adopt the SCS Connect product. Brazil demand was weak in 2016 as a result of difficult economic conditions in that country, however we are seeing demand increase for SCS Connect training and trials, which could translate to an increase in 2017 sales. The rollout of SCS Connect to a large food and beverage brand in Mexico commenced in 2016 and we started working with other new SCS customers in Central America.

USA/Canada: The USA and Canada regions saw 130% growth versus 2015, with US$2.2 million of revenue compared to $1.0 million in 2015. Two new customers for the ECR2 motor product contributed the majority of this growth. In addition several smaller but strategically important customers starting buying ECR2 motors through our USA distribution partner, East West. We are continuing with several SCS field trials in the USA, although it is becoming evident that the adoption rate for SCS may take longer in this region. We were encouraged to be invited to participate in a research project by a customer interested in new SCS digital services.

APAC: Asia Pacific revenues of $2.3 million held relatively steady versus 2015, with a 9% increase on the US$2.1m recorded in 2015. Eight new customers were won in this region; two of those for SCS and the balance for EC motors, including several smaller Chinese display case manufacturers. Our business development effort in this region was focused on developing and training new customers for the SCS Connect product in preparation for 2017 growth.

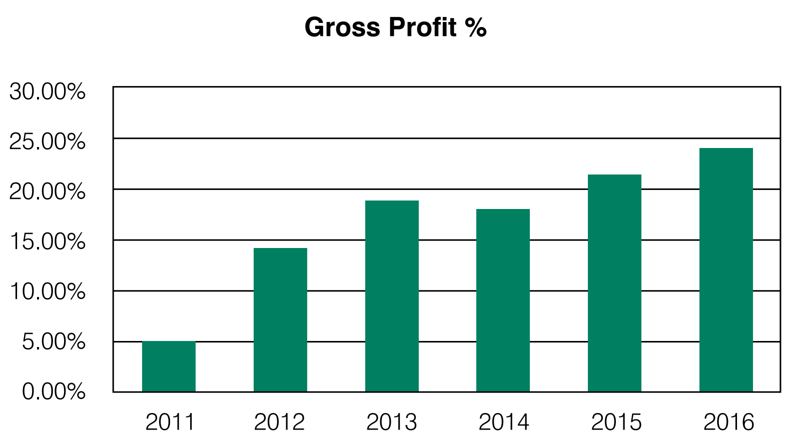
EMEA: EMEA revenues grew by 17% to US$3.2 million, versus US$2.8 million in 2015. This growth resulted from three new customer wins in Europe and increased volumes from a new Italian customer won at the end of 2015. Of particular note was the expansion of our business with UK distribution partner Axair, who had success in developing new display case relationships, which drove demand for our motors. Turkish demand was weak in the latter half of the year as a result of continuing political and economic issues in that country and we expect these difficult trading conditions to continue in 2017.





Gross Profit Performance

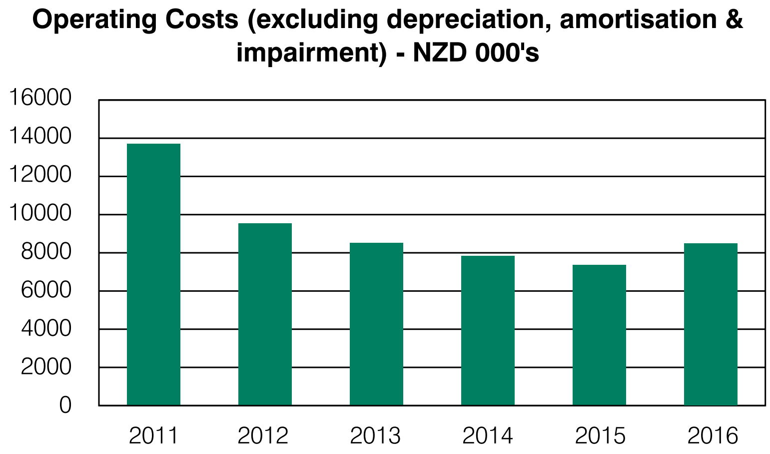
With a stable supply chain and steadily improving supply chain management processes the business was able to deliver further improvements in product manufacturing costs. While the opportunity to remove further significant cost from the EC motors products is becoming harder to realise, the company is benefiting from component cost reductions as a result of volume growth. Gross Margin for the year was 24.0%, increasing from 21.4% in 2015. This was a result of continuing cost reduction programmes with all major suppliers and component pricing benefits being realised from the increased volumes. The Gross Margin improvement was also assisted by revenue from new products.



Productivity

Operating costs increased by 15%, from $7.4 million to $8.5 million. As noted in previous disclosures, 2016 was the year that Wellington started to hire new skills to support SCS Connect software development and customer field support. 10 new people were added to the business between fourth quarter 2015 and the end of 2016. The increase in operating expenses included usual market-related salary adjustments, predominantly for non-management staff to ensure retention of key skills, as well as a notable rise in travel spend to support market development and expansion, particularly in relation to SCS Connect.

Operating cost as a percentage of revenue improved to 24% from 30% in 2015 reflecting an overall increase in productivity, as measured by revenue per employee, which increased from $450,000 to $588,000.



Cash and working capital performance

The Company was pleased to be able to gain debt support from its major shareholder SuperLife in September 2016, with a $2 million one year debt facility secured.

Inventory performance was an operational highlight of the business with inventory turns improving to 7.8 times from 7.0 times in 2015. A new inventory management programme was introduced with one of the Company's main suppliers, which contributed to this improved performance.

Operating cash flow was -$0.048 million compared to the positive $0.834 million in 2015, a result of timing issues and pressure on working capital from the strong 44% sales growth. Wellington invested $1.9 million in capitalised new product development, most of which related to the completion of our new SCS Connect product and the related development of new SCS software and data solutions.

Wellington invested $0.3 million in plant & equipment, mainly focused on increasing manufacturing and test equipment capacity (to support our volume growth and new products), as well as improving critical development equipment in our New Zealand Innovation Centre.

The cash balance at the end of 2016 was $2.1 million with $1.5 million drawn down under the SuperLife debt facility for a net cash position of $0.6 million.

Continuous process improvement

The board and management team continued its focus on health and safety practices and process in 2016. The health and safety committee reports to the board on a monthly basis, managing health and safety processes and system improvements. This committee met regularly throughout the year, and continued to identify areas of improvement. The top improvement areas for 2016 were:

1. Improvements to hazardous goods handling and storage procedures in the New Zealand office.
2. The removal of high bay storage racking in the New Zealand workshop to remove potential earthquake hazard. Materials now stored in outside containers.
3. The creation of fenced off areas in the New Zealand Innovation Centre to separate long term product testing facilities from other workflow.
4. The review and improvement of fire safety equipment and evacuation procedures in the Company's Mexico offices.
5. The expansion of employee travel support insurance to widen the coverage for emergency events.

The team treats its health and safety practices as an important part of its operating system and improvement planning. It thinks of Health and Safety holistically as something that governs how it manages its premises, treats it's employees and all visitors to its premises, deals with all stakeholders who use its products, and manages suppliers and partners to ensure they all establish global best practice quality and safety standards.

Risk Management approach

The board and management team take a proactive approach to identifying and managing business risk. We look at several external factors impacting or potentially impacting the business, such as competitive and geo-political risk, as well as internal structural risk such as Information technology systems, data back-up protection and key employee skill retention. This risk assessment forms part of our annual strategic planning process.

A specific example in September 2016 was the board approving a new data security policy for the business, intended to strengthen our approach to managing both Wellington data and customer data, in line with the new entry into the IoT business segment.

The board and management team considers a numbers of risks as part of its governance process – examples of these risks are

- *Regulatory or legislative changes in export markets* – potential changes in tariffs, taxes (such as sugar taxes), market access changes, and the encouragement of energy efficient products. We build any intelligence gained into our strategic plans and long range sales forecasts.
- *Channel or customer risks* – customers do not normally give purchase commitments beyond a 30 day window. This means that projected sales can change materially as customers alter their forecast needs outside 30 days. The Company has a robust demand/supply process and adjusts internal forecasts and product supply accordingly to meet those changes.
- *Pricing* - Many customers request annual pricing and terms reviews, which is a competitive process that can result in price fluctuation and volumes changes. In 2016 two major customers accounted for $20 million or 57% of the total revenue for the year and both these customers require annual price and terms negotiations. The Company provided some price concessions in 2016 and utilised its strong supply chain to ensure it remained competitive.
- *Competition risks* – there are a number of large and capable global competitors operating in the EC Motor and IoT product markets. Our recent winning of large global EC Motor and SCS Connect contracts shows how our products are managing to counter this risk. However, competitors could develop superior products or they could price at a level we are unable or unwilling to match.
- *Product risks* – the nature of complex design and manufacturing processes means that it is difficult to achieve 100% defect free product performance. We have product quality management and reliability testing processes to assure the quality of products is at the highest standard however customer warranty claims will arise from time of time. The Company did not have any material product warranty claims in 2016, however the costs of meeting any future warranty claim could be material depending on the nature of the claim, the volume of product affected and its location. It is worthy of note that in 2016 customers started demanding extended warranty periods as a condition of supply.
- *Intellectual property risks* – some of the Company's products and technologies are covered by patents, patent applications, confidentiality agreements and trade secrets. Competitors, customers, suppliers and other parties such as 'IP trolls' could circumvent our intellectual property protection (legally or illegally) requiring us to take steps to protect our interests. In 2016 there were no known breaches of Wellington's IP or technology know-how.

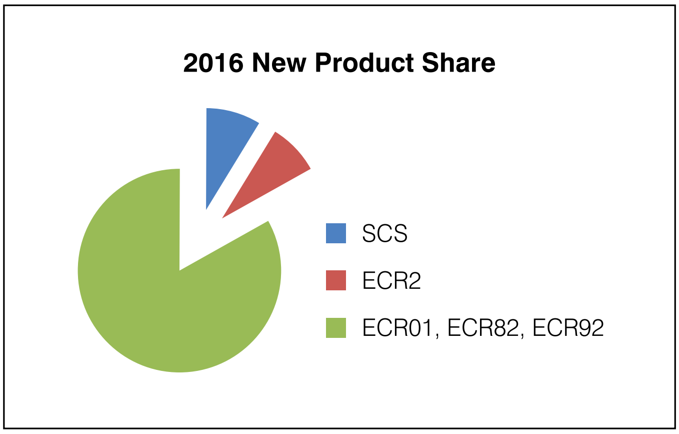
- *People risks* – the loss of key management skills, customer facing technical and sales skills and product development staff could have a negative impact on the Group's operations. The board employs a range of compensation and HR management practices to ensure the team is appropriately rewarded and that key skill retention is a priority. In 2016 staff turnover was extremely low as the business continued to hire new skills in the IoT and customer management areas.

2016 priorities – performance report

The Company's sales strategy is to develop deep relationships with food and beverage retail brands, bottlers and original refrigeration equipment manufactures to ensure we get accepted on approved vendor lists and to develop technologies to solve their business problems. The sales and marketing focus for 2016 was consistent with the previous year as we believed the growth seen in 2015 would continue with the same focus areas. In particular the sales plan was to:

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

The 44% growth in 2016 demonstrates the success of this sales approach and can be broken down as follows:



Of the 44% growth, 12 percentage points was from the ECR2 motor, 19 percentage points was the legacy ECR01, ECR82 and ECR92 motors and 13 percentage points was delivered by SCS Connect. The legacy EC motors products are still selling strongly into the bottle cooler market because they are a good trade-off between cost and efficiency.

Wellington's USA distributor East West commenced sales of the ECR2 motor to three new USA customers towards the end of 2016 and these customers are expected to continue purchasing ECR2 through 2017. Our UK distributor Axair continued to develop supermarket display case channels for our products in the UK.

Wellington continued its success in China with the ECR01 motor, selling to smaller supermarket display case manufacturers. We saw demand increase for the Shaded Pole (Non-EC motor) as customers in China continue to prioritise low component cost over energy efficiency gains and consequent total 'life time' cost. Our largest geographical market for the Shaded Pole motor is Thailand. Significant efforts were made in several South East Asian countries to expand customer trialling of SCS Connect.

With SCS Connect, in February 2016 the Company announced that it had received its first sizable purchase order from one beverage customer for both the connected controller hardware and data reporting services. This was the start of volume shipments to a large global beverage customer in Mexico, under a multi-year supply agreement, and we also continued to expand that relationship to several other countries in the Latin America region. Those new countries did not contribute sales within 2016 but we expect they will support further growth of the business in 2017.

Many of our other regions started to move from field trail stage to early customer adoption with several other new customers. The main exception to that was in the USA and Canadian markets where customers decided to take more time to understand how they would operate and maximise value from the new way of managing coolers fleets. Some customers also explored different approaches to connectivity, in some cases using stand-alone connectivity solutions like a bluetooth button, that would not include refrigeration control functionality. This development is something we are monitoring closely as other IoT communications technologies, such as bluetooth buttons, become available.

2016 – Five Main Priorities

For 2016, the focus of our priorities was heavily weighted to new revenue generation, continuing to develop a more diversified customer base and becoming less reliant on one or two large customers. We made significant progress in all five main priority areas, highlighted below;

1. *Further improve customer diversification by expanding the geographical customer base;*

   Revenue from the USA / Canada grew 130%, mainly from sales of the new ECR2 motor and from East West winning new customers in the USA. Focusing on the USA and Canada as a growth market was the primary geographical expansion action in 2017 and this will continue to be an area of focus.

2. *Develop new customer relationships and grow revenues in the supermarket segment;*

   Shipments of ECR2 commenced to a large new supermarket display case manufacturer and increasingly that motor has been specified into that customer's equipment. A specific enhancement was made to the ECR2 motor to qualify the plastic housing under the National Sanitation Foundation (NSF) food safety and quality accreditation. This allows the ECR2 to be sold into a wider range of food refrigerators. Two additional supermarket equipment manufacturers were won, in the UK and South Africa. Revenues in the supermarket display case and food service segment grew around 40% year over year.

3. *Sell the new ECR2 motor targeting supermarket customers and bottle cooler customers;*

   Late in 2016 work was completed on a new ECR2 Fanpack solution to provide customers with a drop-in solution for a complete air-flow assembly. We started seeing initial indications of demand for this new product and expect sales to commence in the second half of 2017 after customer testing is complete. This is an ECR2 product enhancement specifically designed to increase penetration of the supermarket refrigeration customer base. Our largest bottle cooler customer for ECR2 started purchasing in first quarter 2016, and has steadily moved their cooler products from shaded pole to ECR2 through 2016.

4. *Sell the SCS Connect refrigeration fleet management solution to large global beverage brands and expand the marketing process outside the beverage market;*

   In August 2016 we announced that the Company had signed a large global consumer brand's Master Terms and Conditions for the supply of Wellington's 'Cloud Connected' SCS Connect solution. This agreement allowed Wellington to be considered as an approved supplier to this customer and formed the basis for future supply agreements within their network. In December 2016 we announced the Company had been selected as an approved supplier of connectivity hardware for use in the brand's coolers. This approval allowed Wellington to supply its SCS Connect solution to the brand's network of cooler manufacturers and beverage bottling partners.

While this announcement did not indicate preferred status or determine a minimum level of business it did show that our SCS Connect solution had essentially passed the trial phase with a large end customer and was moving towards production.

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

   The majority of the focus in 2016 was setting up a dual supply strategy for the SCS Connect, so we could be ready with two suppliers to support the expected volume increases in 2017. This dual supply set-up involved ordering and stocking long lead time parts, acquiring additional tooling and test equipment and training the second suppliers in assembly and test. The second supplier will be ready to produce SCS in March 2017. We did start to see some market allocation stress on certain electronic commodities in late 2016, with lead times extending in some silicon parts, capacitors and plastic resin. These allocation issues are being managing through stocking models, advance orders of long lead time parts and in some cases payment of priority fees at component suppliers.

2017 – Five Main Priorities

For 2017, the focus of our priorities will be on sales and support of our new products, further improving our operating systems to deal with high growth rates, as well as commencing the next stage of our product innovation programme so that we can maintain revenue growth beyond 2017. Our focus is firmly on achieving net profitability.

1. Successfully deliver the SCS Connect production programme for new customers
2. Start developing market opportunities for SCS Connect beyond carbonated soft drink
3. Seek technology & channel partnerships to broaden SCS Connect digital services offering
4. Commence development projects for the next phase of EC Motor product roadmap
5. Commence upgrade of our company-wide management information system to support year on year growth.

2017 Outlook

The Company is experiencing a strong start to the 2017 financial year. The ECR2 motor and SCS Connect continues to ship to an expanding customer base and demand for our legacy products, in particular the ECR92 motor, is also strong. We expect revenue in the first quarter to be around $NZ14m with an EBITDA profit recorded.

Our strategy to expand the motor product range, further develop the SCS Connect solution and develop new customers for those products in new markets, will continue at pace. To support that plan we will continue to add new skills in the software development, sales leadership and customer support areas. We will also be seeking partnerships to help us further develop the SCS digital and cloud services component of our SCS Connect offering.

Gross margins for the year are expected to be higher than 2016 as we continue to see the benefits of increased volumes on component pricing. Some key commodities utilised in our motors, such as copper and silicon steel are seeing market driven price increases, but we will work to mitigate any adverse changes in those commodities by improving efficiencies and volume discounts.

Our early estimates for the 2017 year indicate that the Company should achieve revenue growth in the 30% to 40% range and we continue to expect an EBITDA profit in the low millions of dollars.

Planning for 2017 assumes an average NZD / USD rate of 0.70 for the year.

As highlighted in our financial release on the 2nd March, at current projected cost structure an EBITDA of around $2 million would deliver an approximate breakeven net profit. We remain cautious about these estimates given the ongoing economic uncertainty in parts of our EMEA region and developing uncertainties around trade agreements between the USA and several countries where we have customers and suppliers.

The SuperLife loan facility expires in September 2017: current forecasts show that cash generated from operations should be sufficient to repay SuperLife on the expiry date. To provide additional surety, and to ensure the Company continues to have sufficient working capital to support its significant growth, which could put further pressure on working capital, Wellington is seeking a bank line of credit and is in discussions with New Zealand trading banks. The Company is also considering other options to support its growth capital needs.

The board and management team are proud to have delivered the Company's first ever EBITDA profit. The turnaround is clearly over but the job is not done. The next phase of the Company's journey is to become a leader in providing IoT solutions for commercial refrigeration customers, to further expand its ECR motor range and to focus on solving customers airflow needs and in turn to deliver the revenue growth and net profit momentum that has now begun.

We look forward to significantly higher EBITDA profits in 2017 and your continued support.

....
Tony Nowell, CNZM
Chairman

....
Greg Allen
Chief Executive Officer

Note 1: EBITDA (i.e. Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. The Company considers that it is a useful financial indicator because it avoids the distortions caused by the differences in amortisation and impairment policies. Adjusted EBITDA has been calclulated by removing from EBITDA the currency revaluation impact of the preference shares (2016 - loss $121,000, 2015 - gain $565,000) which is not relevant when assessing trading performance.

Directors

Tony Nowell, CNZM
Chairman

Mr Nowell was appointed a director of Wellington in March 2010 and Chairman in December 2010. He is an experienced company leader in major New Zealand and international businesses and also Chairs Scion (the New Zealand Forest Research Institute) and the Omega Lamb Primary Growth Partnership between the New Zealand Government and Primary Industry participants. He is a board member of New Zealand Food Innovation (Auckland) and Food Standards Australia New Zealand. He represented New Zealand on the APEC Business Advisory Council from 2006 to 2016 and also in 2016 completed a six year term as a member of the Export Advisory Board of Business New Zealand. Mr Nowell was formerly Chief Executive of Zespri International, and Griffin's Foods Limited, and the Deputy Chair of Leadership New Zealand. Prior to returning to New Zealand business in 2000 from an extended period of international business experience, Mr Nowell was Regional Vice President of Sara Lee Asia, President Director of Sara Lee Indonesia and President Director of L'Oreal Indonesia.

Dr Lisbeth Jacobs

Dr Jacobs, a native of Belgium, holds a PhD in Materials Engineering from the University of Auckland and a Master of Science in Materials Engineering from the Katholieke Universiteit Leuven, Belgium, where she also completed a post graduate degree in Business Studies. Dr Jacobs has also completed the Executive General Management programme at CEDEP- INSEAD, France. Dr Jacobs is currently General Manager International at UniServices, a wholly owned subsidiary of The University of Auckland. In this role Dr Jacobs is responsible for all commercial activities that the University of Auckland undertakes outside of New Zealand and Australia. She is a member of the board of Energia Potior, a Joint Venture between UniServices and Yunca which delivers technology solutions to the global aluminium industry. Dr Jacobs is Chairwoman and Legal Representative of "The University of Auckland Innovation Institute China" in Hangzhou China, a Wholly Foreign-Owned Entity operating as the newly established commercialisation and innovation branch of UniServices. Before taking up her current role Dr Jacobs was Director Strategy & Development at The Icehouse, following a 13 year career with global corporate Bekaert, a world market and technology leader in steel wire and steel cord products and applications. Dr Jacobs held a range of positions at Bekaert including in Business Development, Strategy, Mergers & Acquisitions and R&D Management both in Belgium and China. Dr Jacobs is Honorary Consul of Belgium since August 2013.

Mr Gottfried Pausch

Pausch currently serves as an independent director of McKay Ltd in Whangarei, Blackhawk Tracking Systems Ltd in Auckland and as Executive Chairman of Aucom Electronics Ltd in Christchurch and is a Director on one of the National Science Challenges an Initiative of the Ministry of Business, Innovation & Employment (MBIE). The Science for Technological Innovation National Science Challenge aims to tackle New Zealand's big high-tech challenges to grow the economy. The research areas of focus cover materials, manufacturing and design; sensors, robotics and automation; and IT data analytics and modelling.

Mr Pausch was the former CEO at Actronic Technologies and an Executive in Residence at The Icehouse, following a 22 year career with German engineering and electronics conglomerate Siemens, one of the world's leading suppliers of a wide range of products, solutions and services in the field of technology, which included the roles of CEO Siemens Energy Services Ltd and Managing Director of Siemens New Zealand. Mr. Pausch holds an electrical engineering degree from Austria and a master's degree in Business Administration from Duke University in the U.S.A.

Mr John McMahon

Mr McMahon has over twenty years' experience in the Australasian equity markets, predominantly as an equity analyst covering a range of industries including tele-communications, media, gaming transport and industrials. He was a former Head of Research and Head of Equities for ABN AMRO NZ and was Managing Director of ASB Securities for three years. John now manages his own investment portfolio through Sydney-based Auro Investment Management and is Chairman of NZAX-listed Solution Dynamics Ltd (SDL). He has a Bachelor of Commerce (Honours), an MBA and is a CFA (Chartered Financial Analyst) charterholder.

Senior Management

Greg Allen – Chief Executive Officer

Mr Allen was appointed CEO of Wellington Drive in November 2011. Prior to joining Wellington Mr Allen spent 23 years working internationally leading business development, supply chain and manufacturing organisations in Europe, North America and Asia. He is an experienced operational and business leader, having most recently been responsible for the Industrial and Green Technology business unit for Celestica, a highly regarded multinational supply chain services provider. Prior to Celestica Mr Allen led a Canadian public company focused on VOIP products and also held senior roles with global contract manufacturing and engineering services companies. Originally from New Zealand, and with a technical background gained from six years in the New Zealand armed forces, Mr Allen brings to Wellington a broad market experience covering many industrial segments such as telecommunications, aerospace, capital equipment, consumer products and enterprise computing.

Steve Hodgson – Senior Vice President Commercial

Mr Hodgson joined Wellington in August 2008 with initial responsibility for investor relations, capital market activities, and all aspects of corporate strategy. On 2 April 2009, Mr Hodgson was appointed Vice President Corporate Services (this title was changed to Chief Financial Officer in 2010), with responsibility for supporting the Chief Executive Officer and the Board in developing and executing strategic plans, leading the corporate services team (finance, IT, legal, and human resource functions), and managing investor relations and funding programmes. In July 2013 Mr Hodgson was appointed Senior Vice President Commercial, to lead the Company's sales and business activities. Prior to joining Wellington, Mr Hodgson worked in equities research for 20 years and most recently was the Head of Research for Macquarie Securities in New Zealand from 2003 to 2008. He holds a BMS (Hons) from Waikato University with majors in accounting and economics.

David Howell – Chief Technical Officer

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

Howard Milliner – Chief Financial Officer

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

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

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

Erick Layseca – Business Development Director, Americas

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

Clayton Thomas – Sales and Marketing Director, Asia Pacific

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

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

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Note	2016 $000s	2015 $000s
Revenue	2.2	**35,274**	24,572
Cost of sales		**(26,821)**	(19,311)
Gross profit		**8,453**	5,261
Other income	2.3	**206**	691
Operating expenses		**(8,455)**	(7,355)
Earnings before interest, taxation, depreciation & amortisation		**204**	(1,403)
Depreciation	3.2	**(274)**	(251)
Amortisation	3.3	**(1,234)**	(148)
Loss before interest & taxation		**(1,304)**	(1,802)
Finance income	4.2	**8**	49
Finance expenses	4.2	**(1,131)**	(970)
Loss before income tax		**(2,427)**	(2,723)
Income tax expense	2.5	**(51)**	(57)
Loss for the year		**(2,478)**	(2,780)
Other comprehensive income:			
Items that may be reclassified subsequently to the profit or loss:			
Exchange differences on translating operations	4.5b	**(485)**	419
Cash flow hedge, net of tax	4.5c	**(21)**	28
Other comprehensive (loss) / income for the year		**(506)**	447
Total comprehensive loss for the year		**($2,984)**	($2,333)
Loss for the year attributable to the Owners of the Company		**($2,478)**	($2,780)
Total comprehensive loss attributable to the Owners of the Company		**($2,984)**	($2,333)
Basic earnings per share – cents	2.6	**(0.96)**	(1.29)
Diluted earnings per share – cents	2.6	**(0.96)**	(1.29)

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 2016

2016	Note	Share capital $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance at 1 January 2016		**117,184**	**(109,648)**	**(1,938)**	**5,598**
Comprehensive Income					
Loss for year		**-**	**(2,478)**	**-**	**(2,478)**
Other comprehensive income					
Exchange differences on translating operations	4.5b	**-**	**-**	**(485)**	**(485)**
Cash flow hedge	4.5c	**-**	**-**	**(21)**	**(21)**
Income tax relating to other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income		**-**	**(2,478)**	**(506)**	**(2,984)**
Share option compensation expensed	4.5a	**-**	**-**	**127**	**127**
Contributions of equity, net of costs	4.3	**8**	**-**	**-**	**8**
Lapsed part paid shares	4.3,4.5a	**-**	**-**	**-**	**-**
Balance at 31 December 2016		**$117,192**	**($112,126)**	**($2,317)**	**$2,749**

2015	Note	Share capital $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance at 1 January 2015		114,308	(106,994)	(2,336)	4,978
Comprehensive Income					
Loss for year		-	(2,780)	-	(2,780)
Other comprehensive income					
Exchange differences on translating operations	4.5b	-	-	419	419
Cash flow hedge	4.5c	-	-	28	28
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(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)
Balance at 31 December 2015		$117,184	($109,648)	($1,938)	$5,598

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

Wellington

Consolidated Statement of Financial Position

as at 31 December 2016

	Note	2016 $000s	2015 $000s
Current Assets			
Cash and cash equivalents	3.1a	**2,099**	2,880
Trade and other receivables	3.1b	**9,015**	5,918
Derivative financial instruments	6.7	**-**	24
Inventories	3.1c	**3,461**	3,700
Total current assets		**14,575**	12,522
Non-Current Assets			
Plant and equipment	3.2	**999**	1,009
Intangible assets	3.3	**5,914**	5,300
Total non-current assets		**6,913**	6,309
Total assets		**21,488**	18,831
Current Liabilities			
Trade and other payables	3.1d	**10,939**	7,830
Provisions	3.1e	**253**	215
Derivative financial instruments	6.7	**14**	-
Borrowings	4.1	**7,499**	-
Total current liabilities		**18,705**	8,045
Non-Current Liabilities			
Borrowings	4.1	**34**	5,188
Total non-current liabilities		**34**	5,188
Total liabilities		**18,739**	13,233
Net assets		**$2,749**	$5,598
Equity			
Contributed equity	4.3	**117,192**	117,184
Accumulated losses	4.4	**(112,126)**	(109,648)
Other reserves	4.5	**(2,317)**	(1,938)
Total equity		**$2,749**	$5,598

For and on behalf of the Board

Director
1 March 2017

Director
1 March 2017

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 2016

	Note	2016 $000s	2015 $000s
Cash flows from operating activities			
Receipts from customers exclusive of GST/VAT		**32,805**	25,479
Payments to suppliers and employees exclusive of GST/VAT		**(32,789)**	(24,662)
Interest paid		**(345)**	(289)
Interest received		**8**	39
Taxation paid		**(69)**	(68)
Net GST/VAT received		**342**	335
Net cash (outflow) / inflow from operating activities		**(48)**	834
Cash flows from investing activities			
Payments for plant and equipment	3.2	**(287)**	(233)
Payments for intangible assets	3.3	**(1,930)**	(1,973)
Proceeds from sale of plant and equipment		**2**	2
Net cash outflow from investing activities		**(2,215)**	(2,204)
Cash flows from financing activities			
Cash proceeds from ordinary and preference share issues, net of refunds and issue costs	4.3	**8**	2,876
SuperLife loan facility borrowing	4.1	**1,500**	-
Finance lease borrowing	4.1	**76**	-
Finance lease repayments	4.1	**(17)**	-
Net cash inflow from financing activities		**1,567**	2,876
Net (decrease) / increase in cash and cash equivalents		**(696)**	1,506
Cash and cash equivalents at the beginning of the financial period		**2,880**	1,196
Effect of exchange rate movements on cash		**(85)**	178
Cash and cash equivalents at end of year	3.1	**$2,099**	$2,880

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

Reconciliation of loss for the year to net cash (outflow) / inflow from operating activities

	2016 $000s	2015 $000s
Loss for the year	**(2,478)**	(2,780)
Adjustments for:		
Depreciation and amortisation	**1,508**	399
Gain on disposal of plant & equipment	**(2)**	(2)
Share based payments	**127**	77
Amortisation of borrowing	**786**	681
Change in fair value of embedded option	**-**	(10)
Inventory provision movement	**(251)**	(2)
Doubtful debts provision movement	**(4)**	11
Provision for warranty movement	**38**	(44)
Net foreign exchange differences	**(278)**	(350)
Increase in trade and other receivables	**(3,093)**	(619)
Decrease in inventories	**490**	976
Increase in trade and other payables	**3,109**	2,497
Net cash (outflow) / inflow from operating activities	**($48)**	$834

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.

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conducts Act 2013. 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). 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 1 March 2017. 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 Group reported a loss after tax of $2,478,000 (2015: $2,780,000) and cash flows outflows from operating activities of $48,000 (2015: inflow of $834,000) for the year ended 31 December 2016. As at 31 December 2016, the Group has net assets of $2,749,000 (2015: $5,598,000) and net current liabilities of $4,130,000 (2015: net current assets of $4,477,000). Included in current liabilities is a balance of $5,974,000 which relates to convertible preference shares that have a conversion date in May 2017 (refer Note 4.1) and $1,500,000 which relates to amounts owing to SuperLife Limited under a $2,000,000 facility that is scheduled to be repaid in September 2017 (refer Note 4.1).

The Group is experiencing significant revenue growth, in the range of 30% to 40%, following the launch of its new ECR2 motor and SCS Connect products. Management is exploring a number of financing options including obtaining bank funding to replace the SuperLife facility.

In the unlikely event that sufficient external funding cannot be obtained, it is managements' intention to defer discretionary operating and capital expenditure and further improve supplier working capital processes. The Group's forecasts indicate that following deferral of this expenditure, it will be in a position to repay the SuperLife facility when it falls due. However these cash flow forecasts include revenue growth projections and other significant assumptions, including anticipated customer demand for new products, expected margins, anticipated development costs, expected foreign currency exchange rate fluctuations and working capital requirements. Actual results and cash flows may vary materially from forecast.

The ability of the Group to obtain sufficient external funding, if needed, and the judgements and assumptions associated with forecasting future results and cash flows gives rise to the existence of material uncertainties over the ability of the Group to repay its debt and continue to operate as a going concern, realise its assets and meet its obligations in the normal course of business.

It is the considered view of the Directors that the Group will have access to adequate resources to meet its ongoing obligations for at least a period of 12 months from the date of signing these financial statements.

On this basis, the Directors have assessed it is appropriate to adopt the going concern basis in preparing its financial statements. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

(b) Principles of consolidation

Subsidiaries 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.

Revenue from external customers by geographic areas	2016 $000s	2015 $000s
Americas	**27,257**	17,619
Asia / Pacific (APAC)	**3,300**	3,004
Europe / Middle East / Africa (EMEA)	**4,717**	3,949
Total	**$35,274**	$24,572

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

Total non-current assets	2016 $000s	2015 $000s
Americas	**11**	4
Europe / Middle East / Africa	**8**	10
New Zealand	**6,894**	6,295
Total	**$6,913**	$6,309

Total non-current 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 $10,656,000 and $9,388,000 of total revenues (2015: two customers each with revenues of $7,325,000 and $6,534,000).

2.2 Revenue

	2016 $000s	2015 $000s
Product revenue	**35,211**	24,543
Services revenue	**63**	29
	$35,274	$24,572

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

	2016 $000s	2015 $000s
Net foreign exchange gains	**88**	568
Licence fees received	**55**	113
Grants received	**-**	8
Other income	**63**	2
	$206	$691

Net foreign exchange gains includes a $121,000 loss in 2016 (2015 - $565,000 gain) arising from the revaluation of the Mandatory Convertible Preference Shares (note 4.1).

2.4 Operating expenses

(a) Employee benefits

	2016 $000s	2015 $000s
Wages and salaries and other short term benefits	**6,181**	5,076
Employee share options expense	**127**	77
Employee benefits	**$6,308**	$5,153

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

	2016 $000s	2015 $000s
Rental and operating lease expenses	**$287**	$283

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.

Operating leases	2016 $000s	2015 $000s
Within one year	**272**	275
Later than one year but not later than five years	**520**	781
Later than five years	**-**	-
	$792	$1,056

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 $51,000 (2015: $57,000) is payable in respect of some overseas subsidiaries.

(b) Unrecognised tax losses

	2016 $000s	2015 $000s
Reported loss for period before tax	**(2,427)**	(2,780)
Non-deductible / non assessable items	**1,091**	712
Less unrecognised timing differences	**863**	(794)
Net loss for tax purposes	**(473)**	(2,862)
Losses carried forward from prior years	**(98,681)**	(93,388)
Adjustment of prior periods	**(1,810)**	(1,318)
Expired losses	**-**	-
Overseas taxable income	**(110)**	
Exchange adjustments	**600**	(1,113)
Losses available to carry forward to future years	**($100,474)**	($98,681)

Of the total consolidated losses available to carry forward to future years, $2,504,000 (2015 - $2,947,000) 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 2016 year no USA Federal tax losses expired (2015 - 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:

	2016 $000s	2015 $000s
Doubtful debts	**38**	42
Inventory provisions and eliminations	**56**	90
Employee benefits	**94**	54
Other timing differences	**72**	194
Tax losses to carry forward	**28,133**	27,559
Unrecognised net deferred tax asset	**$28,393**	$27,939

(d) Imputation credits

The Group has no imputation credits available (2015 – $nil) and no movements occurred in the Imputation Credit Account (2015 – $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 0.96 cents (2015 – loss of 1.29 cents) is calculated by dividing the loss attributable to equity holders of the Company of $2,478,000 (2015 - ($2,780,000)) by the weighted average number of ordinary shares in issue during the year of 256,895,787 (2015 – 216,049,250).

Diluted EPS of a loss of 0.96 cents (2015 - loss of 1.29 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	
	2016	2015
Part paid shares	**12,904,635**	8,993,524
US employee share options	**1,914,600**	1,058,372

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 (2015 - 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.

	2016 $000s	2015 $000s
Cash on hand and at bank	**820**	1,092
Call deposits	**1,203**	1,712
Short term bank deposit	**76**	76
	$2,099	$2,880

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

NZD	**399**	805
USD	**1,634**	1,970
Other	**66**	105
	$2,099	$2,880

(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.

	2016 $000s	2015 $000s
Trade receivables	**8,504**	5,436
Provision for doubtful debts	**(148)**	(152)
Net trade receivables	**8,356**	5,284
Prepayments	**269**	361
VAT/GST refunds due	**274**	178
Income tax refund due	**32**	14
Other receivables	**84**	81
	$9,015	$5,918

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

	2016 $000s	2015 $000s
NZD	**52**	46
USD	**8,513**	5,495
EUR	**96**	100
Other	**354**	277
	$9,015	$5,918

Provision for doubtful debts		
Carrying amount at start of year	**152**	141
Increase / (decrease) in provision	**2**	(12)
Exchange adjustment	**(6)**	23
Carrying amount at end of year	**$148**	$152

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 reviews 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.

	2016 $000s	2015 $000s
Finished goods – at cost	**2,432**	3,029
Work in progress – at cost	**731**	526
Raw materials – at cost	**369**	467
Less inventory provisions	**(71)**	(322)
Total inventories	**$3,461**	$3,700

Certain inventories are subject to retention of title clauses.

Cost of inventories recognised as an expense and included in cost of sales $25,527,000 (2015: $18,284,000)

(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.

	2016 $000s	2015 $000s
Trade payables	**9,547**	6,927
Employee entitlements	**410**	330
Accrued expenses and deferred income	**982**	573
	$10,939	$7,830

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

	2016 $000s	2015 $000s
NZD	**1,058**	1,035
USD	**9,741**	6,651
Other	**140**	144
	$10,939	$7,830

(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.

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.

Warranty provision	**2016 $000s**	2015 $000s
Carrying amount at start of year	**215**	259
Additional provisions recognised	**93**	87
Amounts used	**(51)**	(184)
Exchange adjustment	**(4)**	53
Carrying amount at end of year	**$253**	$215

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
At 31 December 2014			
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
Year ended 31 December 2015			
Opening net book amount	701	179	880
Additions	215	18	233
Depreciation	(198)	(53)	(251)
Exchange adjustment	123	24	147
Closing net book amount	$841	$168	$1,009
At 31 December 2015			
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
Year ended 31 December 2016			
Opening net book amount	**841**	**168**	**1,009**
Additions	**169**	**118**	**287**
Depreciation	**(212)**	**(62)**	**(274)**
Exchange adjustment	**(17)**	**(6)**	**(23)**
Closing net book amount	**$781**	**$218**	**$999**
At 31 December 2016			
Cost	**5,196**	**1,796**	**6,992**
Accumulated depreciation and impairment	**(4,380)**	**(1,460)**	**(5,840)**
Exchange adjustment	**(35)**	**(118)**	**(153)**
Net book amount	**$781**	**$218**	**$999**

Depreciation	**2016 $000s**	2015 $000s
Plant and equipment	**212**	198
Office equipment, furniture & fittings	**62**	53
	$274	$251

Sale of plant and equipment		
Gain 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 2016 amounted to $125,000 (2015 - $130,000).

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
At 31 December 2014					
Cost	6,526	1,442	406	175	8,549
Accumulated amortisation	(3,999)	(893)	(383)	(77)	(5,352)
Exchange adjustment	(85)	(52)	(11)	(18)	(166)
Net book amount	$2,442	$497	$12	$80	$3,031
Year ended 31 December 2015					
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)
Exchange adjustment	362	71	-	11	444
Closing net book amount	$4,576	$562	$40	$122	$5,300
At 31 December 2015					
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
Year ended 31 December 2016					
Opening net book amount	**4,576**	**562**	**40**	**122**	**5,300**
Additions	**1,866**	**41**	**-**	**23**	**1,930**
Amortisation	**(1,074)**	**(145)**	**(13)**	**(2)**	**(1,234)**
Exchange adjustment	**(71)**	**(6)**	**(1)**	**(4)**	**(82)**
Closing net book amount	**$5,297**	**$452**	**$26**	**$139**	**$5,914**
At 31 December 2016					
Cost	**10,243**	**1,361**	**444**	**231**	**12,279**
Accumulated amortisation	**(5,152)**	**(922)**	**(406)**	**(81)**	**(6,561)**
Exchange adjustment	**206**	**13**	**(12)**	**(11)**	**196**
Net book amount	**$5,297**	**$452**	**$26**	**$139**	**$5,914**

Included within internally generated development costs is $1,102,000 (2015: $4,448,000) under development. This cost is not yet being amortised. An impairment assessment has been performed at 31 December 2016 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.

Amortisation and impairment	**2016 $000s**	2015 $000s
Amortisation of intangible assets	**1,234**	148
Impairment of intangible assets	**-**	-

Research and development		
Research & development costs expensed	**648**	414
Development time capitalised	**(1,262)**	(1,342)

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

	2016 $000s	2015 $000s
Current portion		
Mandatory Convertible Preference Shares	**5,974**	-
Loan facility - SuperLife	**1,500**	-
Finance lease	**25**	-
Liability at end of year	**$7,499**	$-
Non-Current portion		
Mandatory Convertible Preference Shares	**-**	5,188
Finance lease	**34**	-
	$34	$5,188

Mandatory Convertible Preference Shares

On 19 May 2015 the Company issued $5,042,346 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 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 statement of comprehensive income as interest expense.

	2016 $000s	2015 $000s
Liability at start of year	**5,188**	4,507
Amortisation	**786**	681
Liability at end of year	**$5,974**	$5,188

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 current because the preference shares convert in 2017. The carrying amount of the Group's mandatory convertible preference shares is denominated in NZD.

Loan facility – SuperLife Limited

In September 2016 the Company secured a $2 million unsecured loan facility from SuperLife Limited, a shareholder. The loan facility has a one year term. Interest is payable quarterly at 14.75% pa and a $20,000 annual revolver fee is payable.

Finance lease

In March 2016 the Company entered into a 36 month equipment lease. The amount financed was $76,000 and repayments in the year ended 31 December 2016 amounted to $17,000.

4.2 Finance

	2016 $000s	2015 $000s
Finance income		
Change in fair value of embedded option (note 6.7)	**-**	10
Other interest income	**8**	39
	$8	$49
Finance expenses		
Amortisation of borrowing (note 4.1)	**786**	681
Preference shares coupon	**252**	252
Other interest expense	**93**	37
	$1,131	$970

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.

	2016 Shares	2015 Shares	2016 $000s	2015 $000s
Ordinary shares – fully paid	**231,684,047**	231,684,047	**117,155**	117,155
Ordinary shares – partly paid	**12,904,635**	8,993,524	**37**	29
US employee share options	**1,914,600**	1,058,372	**-**	-
Preference shares (note 4.1)	**25,211,740**	25,211,740	**-**	-
Total shares and options on issue	**271,715,022**	266,947,683	**$117,192**	$117,184

(a) Ordinary shares – fully paid

Opening balance of ordinary shares on issue	**231,684,047**	126,373,117	**117,155**	114,273
Issues of ordinary shares during the year:				
• 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 year end	**231,684,047**	231,684,047	**$117,155**	$117,155

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	**8,993,524**	6,941,462	**29**	35
Issues of partly paid shares during the year:	**3,911,111**	4,207,056	**8**	5
Lapsed	**-**	(2,154,994)	**-**	(11)
Surrendered	**-**	-	**-**	-
Ordinary part paid shares on issue at year end	**12,904,635**	8,993,524	**$37**	$29

For further details of part paid shares see 6.2c

(c) US employees share options (numbers)

	2016 Share Options	2015 Share Options
Options outstanding at start of year	**1,058,372**	673,510
Issues of U.S. employee options during the year:	**856,228**	384,862
Lapsed	**-**	-
Outstanding at end of year	**1,914,600**	1,058,372

4.4 Accumulated losses

	2016 $000s	2015 $000s
Opening balance	**(109,648)**	(106,994)
Loss for the year	**(2,478)**	(2,780)
Surrendered & lapsed employee share option scheme benefits	**-**	126
Accumulated losses at end of year	**$112,126**	($109,648)

4.5 Other reserves

	2016 $000s	2015 $000s
Share option compensation reserve	**248**	121
Currency translation reserve	**(2,568)**	(2,083)
Hedging reserve	**3**	24
	($2,317)	($1,938)

(a) Share Option Compensation Reserve

	2016 $000s	2015 $000s
Share based compensation recognised at start of year	**121**	170
Net compensation expensed	**127**	77
Surrendered & lapsed share option scheme transferred to accumulated losses	**-**	(126)
	$248	$121

(b) Currency Translation Reserve

	2016 $000s	2015 $000s
Opening balance	**(2,083)**	(2,502)
Movements for the year	**(485)**	419
	($2,568)	($2,083)

(c) Hedging reserve

	2016 $000s	2015 $000s
Opening balance	**24**	(4)
Cash flow hedge fair value gains / (losses) for the year	**(21)**	28
Tax on fair value gains / (losses)	**-**	-
	$3	$24

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 cost 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 statement of comprehensive income. 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 statement of comprehensive income.

A sensitivity analysis of foreign exchange rate risk on the Group's monetary assets and liabilities at 31 December 2016 is provided in the table below. This shows the impact of a 10% strengthening in the USD exchange rate relative to other currencies – a positive impact on the results because NZD denominated debt will be less in USD terms.

	Carrying amount $000s	Currencies other than USD $000s	Profit impact $000s	Equity impact $000s
Monetary assets:				
Cash	**2,099**	**465**	**(33)**	**(33)**
Trade and other receivables	**9,015**	**502**	**(36)**	**(36)**
Monetary liabilities:				
Trade and other payables	**(10,939)**	**(1,198)**	**86**	**86**
Borrowings	**(7,533)**	**(7,533)**	**542**	**542**
Net impact			**$559**	**$559**

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 2015 was $354,000.

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.

	Reported in NZD $000s	If NZD / USD rate had been 0.60 $000s	If NZD / USD rate had been 0.80 $000s
Revenue	**35,274**	**41,748**	**31,577**
Gross profit	**8,453**	**10,004**	**7,567**
Operating income	**206**	**216**	**200**
Operating expenses (excluding depreciation & amortisation)	**(8,455)**	**(8,953)**	**(8,169)**
EBITDA	**$204**	**$1,267**	**($402)**

Interest Rate Risk

The coupon attaching to the Mandatory Convertible Preference Shares is 5% pa. In 2016, the Group borrowed $1,500,000 from SuperLife and entered into a finance lease. The interest rate on this debt is fixed. There is no other interest bearing debt.

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 $275,000 were past due but not considered impaired (2015 - $1,146,000). Of this amount $44,000 (2015 - $113,000) 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. $1,387,000 is deposited with a major NZ trading bank with a Standard and Poors rating of AA- (2015: $1,417,000 AA-) and $345,000 (2015: $553,000) with Western Union. The remaining balance of $367,000 (2015: $910,000) 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.

	2016			2015		
$000's	**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	**10,236**	**-**	**-**	7,589	-	-
Borrowings	**1,512**	**13**	**34**	-	-	-
Coupon on preference shares	**126**	**-**	**-**	126	126	126
	$11,874	**$13**	**$34**	$7,715	$126	$126

Trade and other payables above exclude any liabilities for tax (including payroll taxes), statutory liabilities and deferred income. 2015 comparative figures have been restated.

(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.

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	**2016**	2015
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 61.

(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.

	2016 $000s	2015 $000s
Salaries, fees and other short term benefits	**1,633**	1,525
Share based remuneration	**97**	69
Directors' remuneration	**158**	174
Total	**$1,888**	$1,768

(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 2016 (numbers)**	Outstanding at 2015 (numbers)
24 Jun 2013	24 Jun 2017	24 Jun 2018	16.29	16.29	15.79	**1,635,665**	1,635,665
18 Jun 2014	18 Jun 2017	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**	2,316,840
1 Jul 2015	1 Jul 2018	1 Jul 2020	5.65	5.65	5.53	**1,890,216**	1,890,216
20 Apr 2016	31 Mar 2017	31 Mar 2019	9.43	9.43	9.23	**3,489,131**	-
30 Sep 2016	30 Sep 2019	30 Sep 2021	18.17	18.17	17.81	**421,980**	-
						12,904,635	8,993,524

A Partly Paid Share Scheme was established in June 2008, to enable certain employees to acquire shares in the Company. 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.

The April 2016 issue of part paid shares is subject to the company achieving specific financial performance targets in the 2016 financial year or at the discretion of the directors pursuant to the rules of the Scheme.

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 1,260,587 part paid shares in June 2014, 2,316,840 shares in 2015 that have a two year vesting period and a further 1,218,073 in April 2016 subject to terms outlined above.

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:

	2016 issues	2015 issues	2014 issues	2013 issues
• Market price or "hurdle price" required to enable the partly paid shares to be exercised:	**9.43 – 18.17 cents**	5.21 – 5.65 cents	14.22 – 14.73 cents	16.29 – 17.25 cents
• Expected volatility of the Company's shares:	**58.1 – 59.4%**	43.4%	46.57%	52.7%
• Risk-free interest rate:	**1.92 – 2.34%**	2.97 – 3.04%	3.63 – 3.87%	2.87%
• Expected term:	**1 – 3 years**	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 2016 (numbers)**	Outstanding at 2015 (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**	384,862
20 Apr 2016	31 Mar 2019	11.7	**760,013**	-
30 Sep 2016	30 Sep 2020	18.2	**96,215**	-
			1,914,600	1,058,372

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

	2016 issue	2015 issue	2014 issues	2013 issue
• Market price or "hurdle price" required (being the issue price plus 30%) to enable the options to be exercised:	**18.2 cents**	5.59 cents	12.2 – 14.3 cents	16.9 cents
• Expected volatility of the Company's shares:	**58.1-59.4%**	43.4%	46.57%	52.7%
• Risk-free interest rate:	**1.92-2.34%**	3.04%	3.87%	2.87%
• Expected term:	**3 years**	3 years	3 years	3 years

6.3 Contingencies

There are no material contingent liabilities or assets (2015 - $nil).

6.4 Financial instruments by category

	2016 $000s	2015 $000s
Assets per Statements of Financial Position		
Loans and Receivables		
Trade and other receivables	**8,133**	5,173
Cash and cash equivalents	**2,099**	2,880
Derivatives used for hedging (at fair value)		
Derivative financial instruments	**-**	24
	$10,232	$8,077
Liabilities per Statements of Financial Position at amortised cost		
Trade and other payables	**10,279**	7,631
Borrowings	**7,533**	5,188
Derivatives used for hedging (at fair value)		
Derivative financial instruments	**-**	-
At fair value	**14**	
Embedded option	**-**	-
	$17,826	$12,819

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	2016 $000s	2015 $000s
PricewaterhouseCoopers:		
- Audit of financial statements of the Group	**90**	85
- Procedures over interim financial statements of the Group	**7**	6
Audit of subsidiaries by other auditors	**7**	7
Total remuneration for audit services	**$104**	$98

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 de-recognition of financial assets, financial liabilities, impairment of financial assets and hedge accounting addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is mandatory for accounting periods beginning on or after 1 January 2018.

NZ IFRS 15, 'Revenue from contracts with customers' establishes the framework for revenue recognition. The standard is mandatory for accounting periods beginning on or after 1 January 2018.

IFRS 16, 'Leases', requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard is mandatory for accounting periods beginning on or after 1 January 2019.

Whilst the Group has not yet formally assessed the impact of these standards, IFRS15 is not expected to have a significant impact on the Group's revenue recognition policies and for IFRS16, the Group's operating lease commitments are disclosed in note 2.4(b) which would be subject to the requirements of IFRS16.

6.7 Derivative financial instruments

	2016 $000s	2015 $000s
Option embedded in the preference shares	**-**	-
Forward foreign exchange contracts	**(14)**	24
(Liability) / asset at end of year	**($14)**	$24

(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.

	2016 $000s	2015 $000s
Liability at start of year	**-**	(10)
New issue (note 4.1)	**-**	-
Gains recognised in finance income (note 4.2)		10
Exchange adjustments	**-**	-
Liability at end of year	**$-**	$-

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 auditor's report

To the shareholders of Wellington Drive Technologies Limited

Wellington Drive Technologies Limited's consolidated financial statements as at and for the year ended 31 December 2016 comprise:

- the consolidated statement of comprehensive income;
- the consolidated statement of movements in equity;
- the consolidated statement of financial position;
- the consolidated cash flow statement; and
- the notes to the consolidated financial statements, which include the significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Wellington Drive Technologies Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out procedures over the interim financial statements of the Group. The provision of this service has not impaired our independence as auditors of the Group.

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Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $353,000 which represents 1% of revenue.

We chose revenue as the benchmark because, in our view, it is a relatively stable measure of performance relative to the size of the Group, and it is one of the benchmarks against which the performance of the Group is most commonly measured by users of the financial statements. It is also a key business driver, the focus of management and the board.

Our key audit matters are:

- Carrying amount of development costs; and
- Inventory existence and valuation.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Material uncertainty related to going concern

We draw attention to Note 1.2 (a) to the financial statements, which discloses that amounts owing to SuperLife Limited are scheduled to be repaid in September 2017. Management is currently exploring a number of financing options including obtaining bank funding to replace the SuperLife facility.

In the event that sufficient alternative external funding cannot be obtained, it is management's intention to defer discretionary operating and capital expenditure and further improve supplier working capital processes in order to repay this facility when it falls due. However the Group's cash flow forecasts include a number of significant judgements and assumptions and as a result, actual results and cash flows may vary materially from forecast.

These conditions, along with other matters as set forth in Note 1.2 (a), indicate the existence of a material uncertainty which, in the event of management not being successful in executing its plans, may give rise to significant doubt over the ability of the Group to continue to operate as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the material uncertainty related to going concern section, we have determined the matters below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Carrying amount of development costs	
At 31 December 2016, the Group has capitalised product development costs amounting to $5.3 million, net of accumulated amortisation relating to SCS Connect and ECR2, the Group's new products. At the end of 2015, the ECR2 motor and SCS Connect were complete. Further development of SCS Connect was incurred in 2016 to meet additional customer needs. The total development costs capitalised amounting to $1.9 million comprised internal labour time and other directly attributable external costs. The accounting standard on capitalising such costs sets out a prescribed criteria that needs to be met before the costs can be capitalised. The requirements are that the related products are technically and commercially feasible, the project is adequately resourced to completion and future sales are expected to be sufficient to recover the capitalised costs. Assessing whether these criteria are met involves significant judgement and estimation. Refer to note 3.3 of the financial statements - *Intangible assets*.	The carrying amount of development costs was a key audit matter because it involves a significant amount of audit effort and the determination on whether the development costs capitalised meet the accounting standard criteria for recognition involves judgement and estimation. We performed the following procedures: • We obtained an understanding of how costs are identified relating to development products and how management determines which costs can be capitalised. • Through our testing of revenue, we were able to determine that both the ECR2 motor and SCS Connect have generated revenue since January 2016 supporting the view that they are both technically and commercially feasible. • We tested, on a sample basis, capitalised costs to either external invoices or payroll records. From the procedures performed we have no matters to report. • We were able to confirm management's ability to accurately forecast sales by comparing the sales achieved in 2016 relative to the 2016 forecasts. Based on this assessment, purchase orders received and our review of the 2017 forecasts sales and gross profit on these products appear sufficient to recover the capitalised costs.

Key audit matter	How our audit addressed the key audit matter
Inventory existence and valuation As at 31 December 2016, the Group had inventory of $3.5 million. Given the size of the inventory balance as compared to the total assets of the Group and that the inventory is held at third party locations, the existence and valuation of inventory is a key audit matter. Refer to note 3.1c of the financial statements - *Inventory*.	We performed the following audit procedures over inventory existence and valuation: • We gained an understanding of management's processes and controls for obtaining and confirming the quantity and condition of inventories held by third parties. • We obtained third party confirmations and assessed the reliability of these confirmations, by checking that the third party warehouses are genuine companies and confirmations were received directly from third party warehouse personnel. We also reviewed the Group's contracts with these third party warehouses. • We tested the cost of inventory, on a sample basis, to supplier invoices. • We gained an understanding of the Group's inventory provisioning process, which involves a monthly line by line review of inventory. Judgement is involved in determining the amount of provision assigned to specific stock lines based on condition and relative recovery value. • We considered the impact on older products and the potential risk of obsolescence given the introduction of newer models, such as the ECR2 motor. • We tested the reliability of management's provisions by assessing the actual inventory write off in 2016 against the provision. From the procedures performed, we have no matters to report.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, when we read the annual report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Julian Prior.

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
1 March 2017

Auckland

Statistory Information

Introduction

Directors have resolved that no dividend be declared payable.

The Company does not have a credit rating.

Remuneration of Directors

During the year the following remuneration was paid or payable to directors:

	2016	2015
Mr T. Nowell	**$50,000**	$50,000
Dr L. Jacobs	**$30,000**	$30,000
Mr G. Pausch [1.]	**$30,000**	$30,000
Mr J. McMahon [2.]	**$30,000**	$30,000
Mr S. R. Beck [3.]	**$22,500**	$30,000

Note

1. Fees for Mr G. Pausch are paid to Board Advisory Services Ltd.
2. Fees for Mr J. McMahon are paid to Meta Capital Ltd.
3. Mr Beck resigned as a director on 30 September 2016.

Interested Transactions

The Directors have disclosed the following transactions with the Company:

- Interested Transactions – There have been no transactions during the year with interested or related parties.
- Directors' Remuneration – Remuneration details of Directors are provided above.
- Indemnification and insurance of officers and directors – The Company indemnifies directors and executive officers of the Group against all liabilities which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance. The total cost of this insurance expensed during the year ended 31 December 2016 was $50,769 (2015 - $51,975).
- Directors' Share Transactions – Shawn Beck resigned from the board during the year and has retained his shareholding interests in Wellington at year-end. Other than this, no changes in directors shareholding have occurred during the year. Details of numbers of shares held by directors are shown below.
- Directors' Loans - There were no loans by the Company to Directors.
- Key Management Share Transactions - In April 2016 key management were issued 2,798,139 part paid ordinary shares and 414,650 US Share Options; In September 2016 key management were issued 192,431 part paid ordinary shares; During 2016 changes in the organisation chart resulted in 50,000 part paid shares being deemed to be held by key management.

  Note Key management personal include the Directors, the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO. For the purposes of these disclosures directors interests are disclosed separately to other key management.
- The Board received no notices during the year from directors requesting to use Company information received in their capacity as directors which would not otherwise have been available to them.

Directors' Shareholding

	31 December 2016		31 December 2015	
Ordinary shares	Total Relevant Interest	Direct	Total Relevant Interest	Direct
Mr T. Nowell	**262,708**	**-**	262,708	-
Mr J. McMahon	**9,055,285**	**-**	9,055,285	-
Mr G. Pausch	**-**	**1,000,000**	-	1,000,000
Mr S. R. Beck	**n/a**	**n/a**	842,074	-
Convertible preference shares				
Mr T. Nowell	**17,750**	**-**	17,750	-
Mr J. McMahon	**911,057**	**-**	911,057	-

Notes: Mr Beck resigned as a director during the year – his 2016 balances are shown as n/a for this reason. Further details of the movements in the shareholdings of directors are provided above under Interested Transactions.

Employees

The number of employees, other than Directors, within the Group receiving remuneration and benefits above $100,000, as is required to be disclosed in accordance with section 211(1) (g) of the Companies Act 1993, is indicated in the following table.

	GROUP	
	2016	2015
$100,000 - $109,999	**3**	1
$110,000 - $119,999	**3**	5
$120,000 - $129,999	**5**	2
$130,000 - $139,999	**-**	2
$160,000 - $169,999	**-**	1
$170,000 - $179,999	**2**	-
$180,000 - $189,999	**1**	-
$190,000 - $199,999	**1**	2
$200,000 - $209,999	**1**	-
$210,000 - $219,999	**1**	1
$220,000 - $229,999	**-**	1
$230,000 - $239,999	**1**	1
$290,000 - $299,999	**1**	1
$390,000 - $399,999	**1**	-
$450,000 - $459,999	**-**	1

NZX Waivers

In accordance with NZ Stock Exchange Listing Rule 10.5.3(f), there were no waivers granted by the NZ Exchange during the year ended 31 December 2016.

Auditors

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

For and on behalf of the Board

....

T. Nowell, CNZM
Chairman
14 March 2017

Shareholder Information

Shareholders

As at 31 December 2016 there were 2,440 shareholders holding 231,684,047 fully paid ordinary shares and 225 shareholders holding 25,211,740 convertible preference shares.

Share Issues

Issues to staff pursuant to the Company's long term incentive scheme are outlined in notes 4.3 and 6.2 to the Financial Statements.

There were no other issues of ordinary or preference shares in 2016.

Shareholder Details

The ordinary shares of Wellington Drive Technologies Limited are listed on the New Zealand Stock Exchange. The information in the disclosures below has been taken from the Company's registers at 3 March 2017:

20 largest shareholders		Ordinary Shares	Convertible Preference Shares [2.]
1.	N.Z. Central Securities Depository Ltd [1.]	93,372,903	21,663,593
2.	East West Manufacturing LLC	19,433,333	-
3.	Wairahi Trust	10,100,000	-
4.	Investment Custodial Services Ltd	9,846,005	1,781
5.	ASB Nominees Ltd (Account 574233)	9,055,285	911,057
6.	Graham Trustees Ltd	8,126,686	372,000
7.	Flynn No 2 Trustees Ltd	4,874,291	-
8.	R.D. Armstrong	4,487,030	-
9.	FNZ Custodians Ltd	3,326,204	14,033
10.	Forsyth Barr Custodians Ltd	2,195,298	11,719
11.	ASB Nominees (Account 317485)	2,000,000	30,000
12.	G. Allen	1,980,897	19,231
13.	Leveraged Equities Finance Ltd	1,950,000	-
14.	Tane Nui Family Trust	1,650,000	-
15.	H. D. Milliner	1,589,277	38,462
16	Rivendale Trust	1,486,846	-
17.	B.D Lobb	1,310,384	62,077
18.	R.& S. Jackson Family Trust	1,000,000	50,000
19.	G. Pausch	1,000,000	-
20.	Shawn Beck Trust	842,074	-

Note 1. N.Z. Central Deposit Securities Depository Limited hold shares on trust for 11 different shareholders. The largest of these are: BNP Paribas Nominees (N.Z.) Ltd – 67,848,862; N.Z. Permanent Trustees Ltd – 8,750,000 shares; TEA Custodians Ltd – 5,034,958 shares; Accident Compensation Corporation – 3,597,804 shares; JPMorgan Chase Bank NA – 3,020,851 shares; Guardian Nominees No 2 Account – 2,077,078; and National Nominees N.Z. Ltd – 1,558,437 shares.
Note 2. Holdings of convertible preference shares are not ranked largest to smallest.

Distribution of Equity Securities

Size of Holdings (at 3 March 2017)			Shareholders Number	%	Fully Paid Ordinary Shares Number	%
1	-	999	999	40.77	337,883	0.15
1,000	-	1,999	233	9.51	312,511	0.13
2,000	-	4,999	338	13.80	1,054,386	0.45
5,000	-	9,999	229	9.35	1,591,818	0.69
10,000	-	49,999	408	16.65	9,215,891	3.98
50,000	-	99,999	91	3.71	5,693,634	2.46
100,000	-	499,999	113	4.61	22,264,163	9.61
500,000	-	999,999	20	0.82	13,013,955	5.62
over		1,000,000	19	0.78	178,199,806	76.91
			2,450	100.00	231,684,047	100.00

2,326 (or 94.9%) shareholders, holding 203,552,640 shares (or 87.9%) reside in New Zealand.

Substantial Security Holders

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

Name	Number of shares#	Date of Notice
Smartshares Limited (Custodian – BNP Paribas Nominees (NZ) Ltd)	64,409,535	2 Nov 2016
East West Manufacturing LLC	10,600,000	17 Sep 2013

#Number of shares is taken from notices received. No adjustments have been made for changes that may have subsequently occurred from the dates of notices stated. The definition of "relevant interest" in the Securities Markets Act 1988 provides that more than one relevant interest can exist in respect of the same securities.

During the year SuperLife Trustee Nominees Ltd and Harbour Asset Management Ltd ceased to be a Substantial Security Holder.

Shareholder Enquires

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the Directory on page 61. Notification must be in writing. Questions relating to shareholdings should also be addressed to Computershare Investor Services Limited. For information about the group please contact the company at the registered office by sending an email to info@wdtl.com or visit our website http:/www.wdtl.com.

Announcements to Shareholders

The company has established an email list of shareholders that want to receive announcements made by Wellington Drive to the New Zealand Stock Exchange. Announcements are emailed to shareholders who wish to receive them shortly after they are released. This will include the Annual Meeting addresses. If you want to be added to this listing, please email info@wdtl.com and advise us of your email address. Your email details will be kept confidential.

Announcements are also posted on our website www.wdtl.com normally the day after they are released.

Corporate Governance

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

Role of the Board

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

Compliance

The governance principles adopted by the Board are designed to meet best practice recommendations for listed companies to the extent that it is appropriate to the size and nature of Wellington's operations. The Board endorses the overall principles embodied in the N.Z. Stock Exchange Corporate Governance Best Practice Code and believes the company's corporate governance principles, policies and practices do not materially differ from best practice principles.

Board Meetings

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

Composition of the Board

The Constitution provides that there will be not less than three and not more than eight directors. N.Z. Stock Exchange requirements are that at least two directors or one-third, are independent directors. The Board has four directors, all of whom are independent. Profiles of Directors are given on Page 16.

Criteria for Board Membership

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

Non-executive Directors' Remuneration

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

Details of the remuneration paid to directors are disclosed on Page 54 in the Annual Report.

Board Committees

The Board has established four committees to guide and assist the Board with overseeing certain aspects of corporate governance. These committees are the Audit Committee, the Technology and Innovation Committee, the Executive Appointment and Remuneration Committee and the Risk Committee. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice. The Company has not established a nomination committee, believing these matters are best dealt with by the full Board.

Audit Committee

The Audit Committee operates under a charter approved by the Board and is accountable to the Board for: overseeing the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements; the appropriateness of accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements; and the business's relationship with, and the independence of, the external auditor.

The committee also approves any non-audit work carried out by the Company's auditor and ensures that the lead partner in the audit firm is rotated every five years.

The committee is composed of three non-executive directors, all of whom are independent.

The current members are Tony Nowell (Chairman), Lisbeth Jacobs and John McMahon.

Risk Committee

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

The current members are Tony Nowell (Interim Chairman) and Gottfried Pausch.

Executive Appointment and Remuneration Committee

The Executive Appointment and Remuneration Committee operates under a charter approved by the Board and is accountable to the Board for: the remuneration and appointment of the senior executive team; management succession planning; reviewing and approving compensation arrangements; establishing employee incentive schemes; and the remuneration of the Board. The committee also advises on proposals for significant company-wide remuneration policies and programmes. In carrying out this role, the sub-committee operates independently of senior management of the Company, and obtains independent advice on the appropriateness of the remuneration packages.

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

Technology & Innovation Committee

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

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

Health and Safety

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

Trading in shares

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

Wellington has a detailed insider trading policy applying to all directors and employees. No director or employee may use confidential unpublished price sensitive information in his or her position to engage in securities trading for personal benefit or to provide benefit to any third party. Short term trading in Wellington shares and buying or selling (while in possession of unpublished price-sensitive information) is strictly prohibited.

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

Relationship with the Independent Auditor

The Company has adopted a policy to ensure that audit independence is maintained, both in fact and appearance, such that Wellington's external financial reporting is viewed as being reliable and credible. The policy covers the following areas:

- The external auditor must remain independent of the Company at all times and comply with the New Zealand Institute of Chartered Accountants' (NZICA) Code of Ethics;
- The external auditor must monitor its independence and report to the Board that it has remained independent;
- Guidelines in relation to the provision of non-audit services by the external auditor in order that the provision of such services does not impair the external auditor's independence or objectivity; and
- The audit firm may be permitted to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the Audit Committee.

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

Diversity Disclosure

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

31 December 2016	Male	Female	Total
All directors	3	1	4
	75%	25%	100%
Officers	8	-	8
	100%	-	100%
31 December 2015			
All directors	4	1	5
	80%	20%	100%
Officers	10	-	10
	100%	-	100%

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

Directory

Directors

Tony Nowell, *Chairman*
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*
Marc Tinsel, *Head of Manufacturing*
Peter Barnes, *Global Quality Leader*
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*

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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

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