Wellington
Annual Report
2020

Wellington

Contents

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There are statements in this document that are "forward-looking statements". As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations, the markets in which it competes and other factors (some of which are beyond the control of Wellington).
All references in this document to $ or "dollars" are references to New Zealand dollars unless otherwise stated.
Wellington's financial year is 31 December.

The numbers
2020

96
customers

2716
shareholders
as at 4 February 2021

Business highlights
2020

Report of the Chairman and Chief Executive Officer

Wellington's strategy is to grow its IoT solutions in the food and beverage sector, expand the customer base for its ECR® 2 and motor platform and take its products into new markets such as medical cooling, foodservice and food quality. While 2020 required aggressive cost and cash management to deal with COVID-19 outcomes, this was undertaken in a manner that maintained the Company's strategy and growth options. The Board gives special thanks to staff for their assistance and support through what was a difficult period.

Late in the first quarter of 2020, Wellington began to see the initial impact from COVID-19. This began as supply chain disruption and subsequently developed into a significant fall in customer demand, especially in the second quarter, as many customers temporarily stopped manufacturing. To manage through these impacts, the Company firstly ensured the safety of staff and then took cost and operational actions to withstand the subsequent economic impact. These included salary and fee reductions across all levels of the Company, a hiring and travel freeze, renegotiating extended payment terms with customers and suppliers and accessing government salary support.

The Company maintained its core operational capabilities, supply chain capacity and new product pipeline, to be ready to resume performance as customers progressively recommenced operations and ordering. Demand started to return in early fourth quarter. This gave the Company confidence to increase its forecast for the fourth quarter to around $10m of revenue and to prepare for continued demand increases in first quarter 2021.

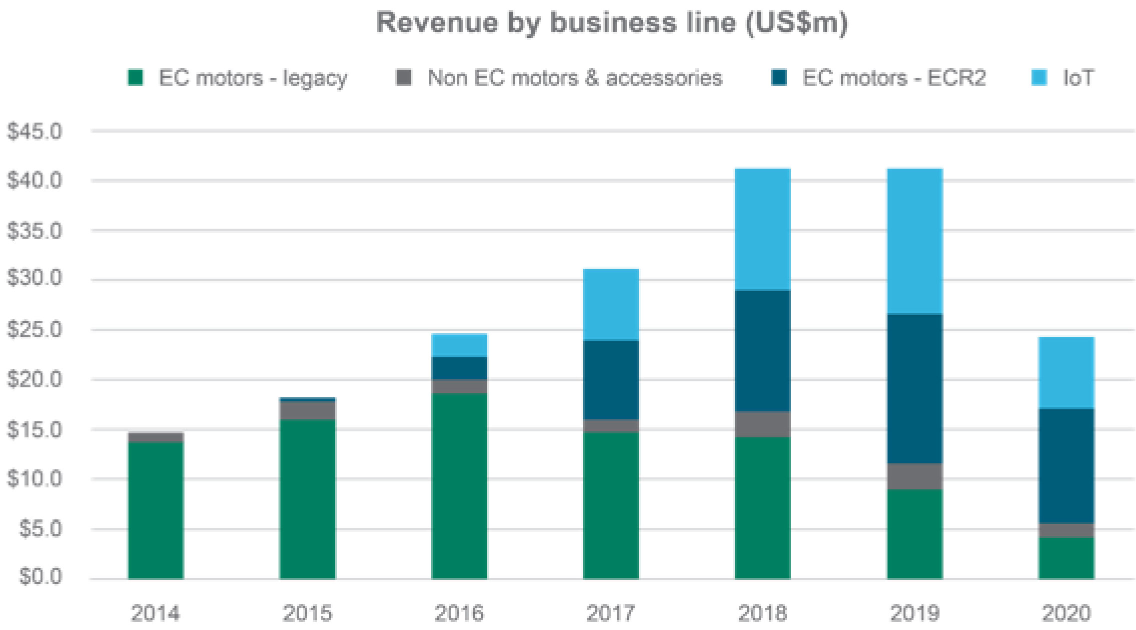
	Revenue NZ$000's				
	Qtr1	Qtr2	Qtr3	Qtr4	FY
2020	15,355	5,129	6,044	10,352	36,880
2019	15,779	17,535	12,586	15,819	61,719
Change%	-2.7%	-70.7%	-52.0%	-34.6%	-40.2%

Wellington's financial results for 2020 reflect a relatively normal first quarter and significant revenue degradation in the second quarter, with Q2 revenue down around 70% versus the previous year. Third quarter saw ongoing weakness with a gradual improvement in fourth quarter (although still well down against the prior year).

Metric (NZD)	2020	2019	Change
Revenue	$36.9m	$61.7m	-40.2%
Wellington Connect IoT revenue	*$12.5m*	*$24.0m*	*-48.1%*
ECR 2 motor revenue	*$16.6m*	*$22.5m*	*-26.4%*
ECR legacy motor revenue	*$6.7m*	*$13.4m*	*-49.7%*
Gross profit	$10.5m	$16.6m	-36.6%
Gross margin %	28.6%	27.0%	+1.6%
EBITDA	$1.19m	$4.22m	-71.8%
EBIT	($1.59m)	$1.51m	-205.4%
Profit (loss) for the year	($2.15m)	$0.45m	-$2.60m
Operating cash flows	$0.34m	$2.99m	-88.6%

Total revenue in 2020 decreased by 40.2% to $36.9m, entirely the result of COVID-19. Food and beverage brands significantly reduced their capital spending on coolers for the year which impacted Wellington's Original Equipment Manufacturer (OEM) customers in turn resulting in lower demand.

Revenue from IoT products decreased by 48.1% and motor products by 35.2%. These reductions are not expected to be ongoing with progressive recovery expected over the coming two years with better than expected demand already achieved in the first quarter of 2021.



Despite the revenue decline, gross margin improved to 28.6% due to improved sales mix. Much of the Company's business in the America's and Asia was closed for a time, however the company's US medical cooler customer provided steady demand and the European supermarket motors business continued relatively normally. Europe was the only region that demonstrated year over year growth in 2020.

Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) was $1.2m compared to $4.2m in 2019. The year includes a $1.0m gain arising from a change in fair value of the contingent consideration payable for the acquisition of iProximity Pty Limited (fair value change) compared to a $0.5m fair value gain in 2019. EBITDA excluding this fair value change was $0.2m.

Earnings before interest and taxation (EBIT) was a loss of $1.6m compared to a profit of $1.5m in 2019. The Company recorded a full year bottom line loss of $2.2m, a $2.6m deterioration on the prior year, again entirely the result of the demand degradation caused by COVID-19.

In June 2020 Wellington was pleased to receive the support of its shareholders as part of its multi-faceted approach to strengthen its balance sheet to manage COVID-19. The Company completed an oversubscribed 1 for 3 rights issue raising $5.3m (net of issue expenses). The funds were used to maintain organisational capability and ensure the Company had sufficient liquidity and working capital against the backdrop of significantly reduced customer demand. In June 2020 the Company's BNZ trade finance facility was increased from $2.0m to $2.5m.

At 31 December, Wellington had cash on hand of $4.6m and borrowings of $2.0m, giving net cash on hand of $2.6m.

Revenue

Wellington Connect IoT

Revenue billings from Connect™ IoT products and services, including Connect™ SCS hardware, data services and iProximity software was $12.5m compared to $24.0m the prior year. Invoicing of IoT data services decreased 52% from $2.7m to $1.3m.

Data services are multi-year contracts and revenue is recognised progressively over the term of the contract, typically from five to ten years. The amount of unrecognised IoT data services revenue held on the balance sheet at 31 December 2020 was $4.2m.

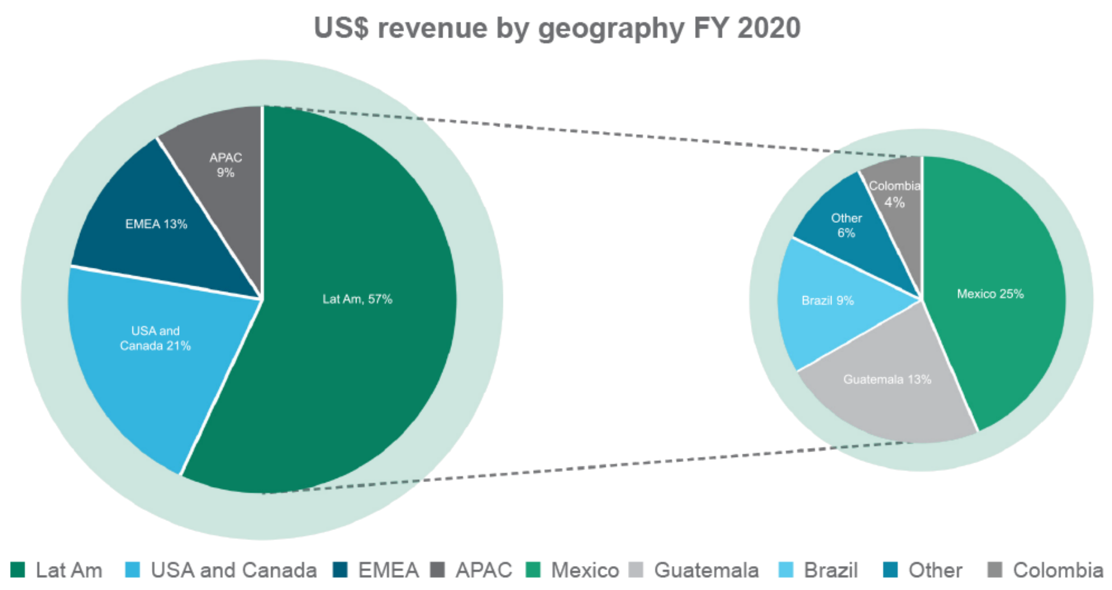
The Company's iProximity digital marketing solution responded to several RFQ's on retail point of sale connectivity and restaurant smart menus using its new Q-TAG and QR-Code / Near Field Communications (NFC) products. The iProximity iPX™ marketing platform has not yet achieved the market penetration in food and beverage initially envisaged due to longer than anticipated sales and testing cycles. It has added significant value in positioning Wellington's

Connect SCS controllers as a complete operational and marketing solution, and directly contributed to specific customer wins for Wellington's Connect SCS product.

Wellington ECR motors

Wellington shipped 831,000 ECR motors in 2020, down 39% from the 1,371,000 in 2019. Around 67% of these motors were the high performing ECR 2 motor. Wellington continued to win new business in 2020, gaining supermarket business in Turkey for its ECF™ 2 Fanpack product and commencing shipments to a major US medical refrigerator manufacturer. 2020 was the first year of shipments for the company's high performance fan assembly designed for supermarket applications, with 64,000 units shipped, predominately to European supermarket OEM customers.

Sales regions



USA and Canada

Wellington's revenue for the USA and Canada region was US$5.2m, a 31% decline on the US$7.5m for 2019. Except for the Company's medical refrigeration customer whose demand remained steady, other major customers in the region essentially shutdown in the second and third quarters. This region did start to reopen towards the end of the third quarter, with demand showing signs of returning to more normal levels early in the fourth quarter.

Latin America

Demand in Latin America remained at COVID-19 affected low levels for much of the last three quarters of 2020, with full year revenue of US$13.8m, a 53% decline on the US$29.2m in 2019. The bottle cooler market was the worst affected market segment in the food and beverage space, and with most of the Company's Latin America customer base focused on bottle coolers, the revenue impact was severe. All of Wellington's beverage cooler manufacturing customers either implemented factory closures or significantly reduced operations during the year. The region experienced severe government restrictions, and in the case of Mexico those restrictions continue into 2021.

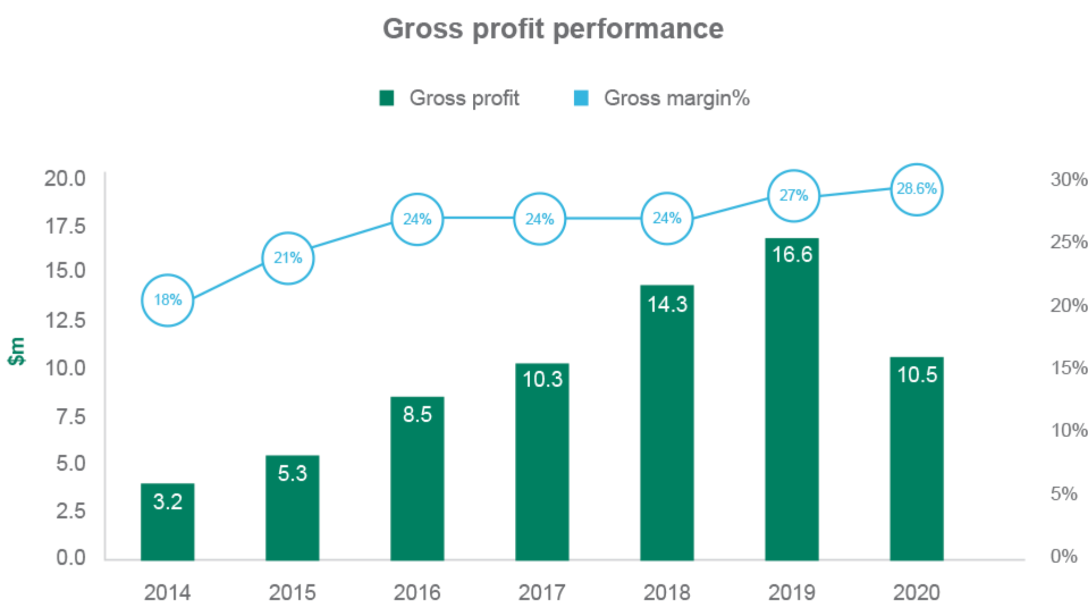
EMEA (Europe, Middle East and Africa)

The EMEA region revenue delivered an impressive 21% growth in 2020, with US$3.0m revenue compared to US$2.5m in 2019. EMEA benefited from a focus on supermarket display case business for the Company's ECF 2 Fanpack product in Turkey and the launch of Connect SCS business for a major beer brand in Africa. These increases helped offset COVID-19 related impacts on the Company's bottle cooler business in that region.

Asia Pacific (APAC)

Asia-Pacific revenue was US$2.2m, 26% lower than the US$2.9m in 2019. The region and in particular Australia and New Zealand appeared to recover faster than other regions in terms of business shutdowns, resulting in relatively steady customer demand. One of Wellington's main customers in this region is heavily focused on supermarket display and food service, and with a similar dynamic to that of Europe these markets held up relatively well.

Gross margin and gross profit changes

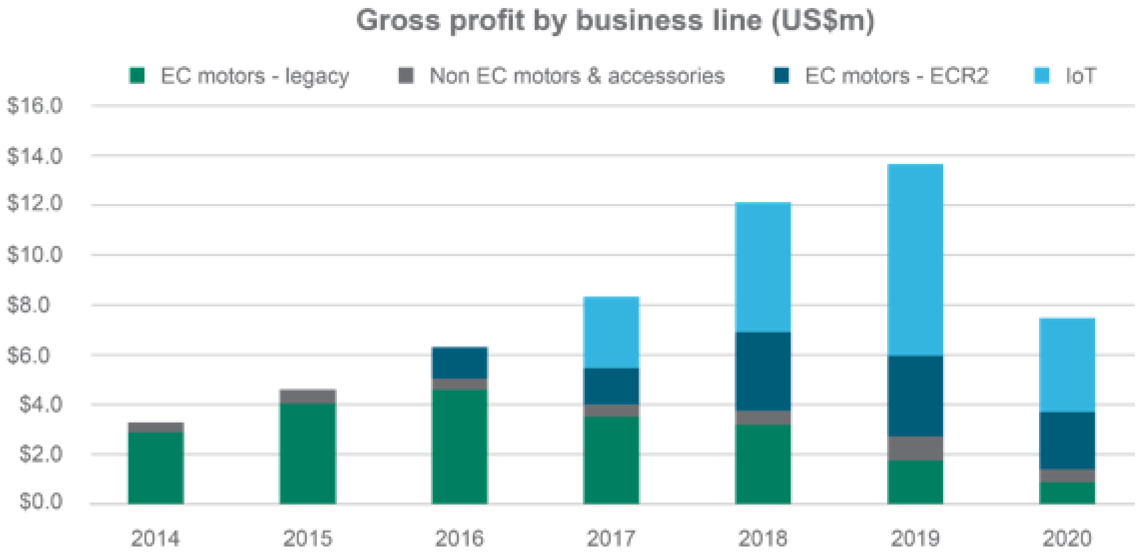


Gross profit reduced from $16.6m in 2019 to $10.5m. Gross margin improved to 28.6% from 27.0%, reflecting the impact of higher margin Connect SCS and data service revenue recognition, reduced lower priced motor volumes, lower customer rebates due to lower volumes and unit cost reductions.

IoT solutions contributed 51% of gross profit and ECR 2 motors 35%.

IoT hardware and software, and ECR 2 platforms continue to deliver higher margins for the

Company.



Operating costs

Operating costs decreased to $11.5m from $12.9m in 2019, a $1.4m reduction, demonstrating how the business effectively flexed its cost base to enable it to manage through COVID-19. Net operating costs after deducting other income was $10.4m compared to $12.9m for 2019.

Here are the key mitigating actions taken to preserve cashflow.

- Company directors, the CEO and staff all agreed to salary reductions ranging from 100% for the Chairman, 50% for other directors, 30% for the CEO, 25% for senior executives and 10% to 20% for other staff. This agreed salary and fees reduction program resulted in a total savings of $1.4m for 2020.
- A hiring freeze which ran from March for the balance of the year.
- International travel was halted, even when allowed by certain countries.
- Seeking and gaining wage support where available in countries that the Company employs staff. The Company received a total of $0.8m in wage and salary support from the New Zealand government, $0.1m under the US Paycheck Protection Program and $0.2m under Australian and Singapore wage support programs.
- Furloughs and alternative work arrangements were initiated for some staff.

Through these cost actions the Company was able to avoid significant job reductions and was able to maintain core capability that will allow it to continue to execute for its customers. Based on improving financial forecasts, the Board decided to partly restore salaries below executive level from 1 October 2020 with all salaries and fees being fully restored from 1 January 2021.

Prior to implementing COVID-related cost reductions, the Company was investing in new growth-related skills, with the January to March period seeing the net addition of four new staff, bringing total staff numbers for the year to 90. Looking ahead to 2021, the Company will restart a modest level of investment in the engineering skills and infrastructure required to support its broader product range (four new products are planned for launch in 2021) and new program management skills in markets where it is broadening its customer base.

Working capital

Cash at 31 December 2020 was $4.6m compared to $3.5m in 2019. Net cash (defined as cash balances net of borrowings and including the liability for right-of-use assets) at 31 December 2020 was $2.6m versus $0.4m at 31 December 2019.

Operating cash inflows for 2020 amounted to $0.3m, down from $3.0m in 2019. Investing cash outflows amounted to $3.4m, meaning a net cash outflow before financing activities of $3.0m (2019 cash outflow of $0.8m). Trade and other receivables reduced $6.2m and trade and other payables reduced by $6.0m compared to 31 December 2019.

After a relatively normal first quarter, the second and third quarter saw significantly lower trading volumes as the pandemic caused extended business shutdowns in the Americas. Wellington modelled a continuation of downturn in fourth quarter and managed cash accordingly. However, revenue started to return to a higher level in fourth quarter allowing an easing of cost reduction and cash management actions.

Throughout the year the Company delivered the following capital and working capital initiatives, all related to managing for COVID-19:

- deferral of $2m of planned capital expenditure, while maintaining investment in new product development;
- negotiated extended payment terms with major suppliers, stretching some suppliers out to 120 days;
- supported customers through their own cash constraints by negotiating plans to ensure regular payments;
- obtained a $0.5m increase in its bank trade finance facility (from $2.0m to $2.5m). At the end of 2020 this facility was drawn down to $0.6m;
- in July 2020, successfully completing a 1 for 3 rights issue that raised $5.3m (net of issue expenses).

Partnerships

Wellington continued to seek out strategic partnerships to increases sales of its IoT and motor products and to gain access to new adjacent markets for its hardware and data solutions.

In October 2020, Wellington announced the signing of a strategic partnership agreement with Imbera Cooling (Imbera) for the exclusive supply of custom connected hardware, IoT application software (apps) and data services for Imbera’s cooler connectivity requirement. Wellington and

Imbera will also collaborate on products and services to support a range of Imbera customers with connected refrigeration solutions.

In late December 2020, Wellington finalised development of the Connect™ SCS 400 series and shipped the first 1,000 pilot units to Imbera. This agreement represents a significant business opportunity for Wellington with annual volumes of around 100,000 connected IoT units potentially achievable as the agreement progresses over the coming years.

Marketing and brand

The Company's product and market development activities continued during the COVID-19 lockdown to ensure the Company continued to promote its new products and seek out new customers.

A marketing campaign was launched in the USA focused on attracting new customers for the ECR 2 product line. This campaign utilised YouTube, email advertising and targeted customer calls. It focused on non-bottle cooler markets such as medical coolers, supermarket display cases and component wholesalers. The campaign generated new leads for Wellington's products, with first orders received from a major refrigeration and HVAC components wholesaler.

In first quarter 2020, Wellington was well underway with a rebranding project designed to overhaul the company's brand name and mission statement. As a result of the COVID-19 cost reduction program, this branding project was put on hold to instead fund new product market and sales collateral and brand roll-out. The branding program will recommence in 2021.

Product development

The Company invested $3.1m in new product development compared to $3.2m in 2019. This investment amounted to 8% of revenue. Most of this investment related to the new Connect SCS 400 series, the Connect™ Monitor (a battery-powered retrofit product), Connect™ Network (an 'always on' IoT network hub) and various apps and software tools (to provide digital services). The ECR 2+ was put on hold for the entire 2020 year to reduce capital investment and refocus electronics skills on to IoT products.

The Company decided to maintain spend on product development despite COVID, to ensure the pipeline of future revenue opportunities remained intact. However, as a result of necessary work from home policies and unplanned staffing attrition, development productivity was affected and some delays occurred to expected launch dates for the Connect Monitor product.

The result for the year includes an $0.4m impairment of previously capitalised cost for development of an earlier model Connect SCS retrofit device. Demand for that earlier model product has not attained expected volume levels and the newer Connect Monitor retrofit device due for launch in early 2021, is expected to be a preferred solution for customers.

Achieving 2020 priorities

2020 was a challenging year, however the Company was determined to stay focused on its priorities. The number one priority throughout the year was keeping Wellington's team and stakeholders safe from COVID-19. The safety and wellbeing of the team remains the primary focus. The Company is also cognisant of the mental health stresses that a year like 2020 can cause and is supporting its staff in this respect.

Prior to COVID-19, the Company announced its Vision 2023 objective to grow revenues to $100m. Whilst COVID-19 will likely delay achieving this goal, the Company believes this level of revenue remains a valid aspirational outcome. This goal is expected to be achieved by developing new IoT and EC motor products, developing new customers in existing food and beverage markets, more fully leveraging its iProximity digital market products and accessing adjacent markets such as food service and medical coolers.

2020 strategic priority results

1. Successful launch of new products including, Connect Monitor retrofit solution, cost optimised Connect SCS controller and ECR 2+ motor.
   Wellington shipped 1,000 pilot units of Imbera's Connect SCS 400 in December. Prototype samples of the Connect Monitor were shipped to global customers to garner market feedback as the product entered the final stages of its approvals. The ECR 2+ motor project was put on hold in 2020 to reduce capital spend and to ensure resources were applied to IoT products in general.

2. Start the new IoT partnership with North American cooler manufacturer, including development of a bespoke Connect SCS solution along with customised apps.
   The agreement was signed and announced in October 2020, with supporting new product introduction on track to the customer needs and revenue expected in 2021.

3. Launch new Connect SCS software products, including enhanced Connect™ Retailer app and Connect™ Insights for cooler fleet management.
   The new Connect Retailer app was launched with the Company's New Zealand customer, SKOPE Industries. Continued enhancements to the way the Connect IoT platform manages data analytics and customises reporting for customers.

4. Develop new markets and customers for the Wellington iProximity marketing platform. Develop software design and support capability closer to customers.
   Wellington is rethinking its iPX platform strategy and exploring new sales channels and product developments such as the Q-Tag, a product that combines a QR-Code and NFC tag with the iPX marketing platform for easy to access consumer engagement.

5. Develop software design and support capability closer to customers.
   In first quarter 2020, Wellington started a search for mobile developers to be based in its Mexico office. This was part of a plan to expand software capability outside of New Zealand, to a lower cost region and bring the capability closer to its main customers. This initiative was put on hold during 2020 and will be restarted in 2021 dependant on decisions around expansion of the software roadmap.

New priority areas for 2021

1. Successfully launch and achieve initial volume shipments for the Imbera Cooling IoT partnership.
2. Successful launch of new products; Connect Monitor, Connect SCS 400 series, Connect Network and ECR 2+ motor.
3. A strategic review of the Company's software product strategy including assessing target markets, capability needed to advance and grow, and developing new customers for the software product business.
4. Further expand ECF 2 Fanpack sales for supermarket display including expanding fanpack range.
5. Restart and complete Company rebranding process and launch new brand.
6. Successful CEO replacement and handover process.

COVID-19 related health and safety

Wellington's first priority was to ensure the safety of its staff and stakeholders. The Wellington team recognised early in the pandemic the need to enhance its already strong health and safety process in all global offices.

The Company implemented a range of new health and safety policies in all its offices, following local government and health authority guidelines. These included:

- review and revision of its pandemic response plan;
- implementing year-long travel bans to manage for staff safety and cost reduction;
- supporting comprehensive remote working, illness reporting and self-quarantine processes and social distancing measures;
- providing gloves and masks, hand hygiene equipment;
- providing personal resiliency training and education.

While Wellington's New Zealand offices have returned to a relatively normal status, the Company's offshore office and staff were and remain under higher levels of COVID-19 restrictions. Many of the health and safety measures have therefore remained in place globally.

Management

As part of an organisational review of Wellington's skill and leadership needs and its continued focus on new products to deliver customer growth, the Company made several senior management changes during 2020.

Beatriz Mibach joined the Company as head of Global Product Management in February 2020, initially reporting to the SVP Commercial. In December she joined the senior executive team reporting directly to the CEO. This change recognises the importance of having product and market strategy and new product lifecycle management managed directly from the CEO office.

Marc Tinsel, previously Vice President Operations and Supply Chain, responsible for revenue delivery for the business was given the additional responsibility of General Manager, Engineering. In this expanded role Marc is responsible for the design and delivery of all the Company's new products and solutions.

David Howell, who previously was responsible for day-to-day engineering and product design operations, moved to a market and research focused chief technology role, focused on the Company's technology strategies, research and product partnerships opportunities. Research activities include ongoing investigation into IoT vision systems and new hardware and software products to access new markets.

Governance

In December 2020, Wellington Director Gottfried Pausch assumed the role of Board Chair. This change was instigated to ensure the Company had a locally based Chair, particularly during a period of CEO transition. Previous Chair, John McMahon continues as a Director of the Company and assumed the Audit and Risk Committee Chair role.

In addition as part of the Company's 2021 planning process, other sub-committee Chair roles changed hands with Keith Oliver taking over the Executive Appointment and Remuneration Committee. John Scott will Chair the Technology and Innovation Committee.

In October 2020 the Company announced that CEO Greg Allen would be stepping down from the role on or before 1 April, 2021 to pursue other opportunities in Canada, where he is based. Mr Allen joined the Wellington board as an overseas-based Director, effective October 30, 2020. He has committed to staying with the Company to at least the end of calendar 2021 to support the Board and assist with transition to a new CEO.

The Board wishes to thank Mr Allen for his leadership over the last nine-and-a-half years which saw the Company through a successful financial turnaround, a strategic pivot to connected IoT solutions and cloud data services and the achievement of record revenues and profit.

2021 outlook

2021 will be an important year for Wellington, as the Company launches four new products in the IoT and motor space. Wellington will commence the first volume shipments from its recently announced relationship with Imbera Cooling and continue progressing initiatives to expand the Connect IoT range of solutions beyond its core 'bottle cooler' market segment.

The decision in 2020, to continue to develop new products and maintain business development despite COVID-19, has already started to pay off. Wellington has increased market share for its ECR motor in Europe and created new wins for its Connect IoT with South American customers. The Company is also increasing electronic assembly capacity at East West's factory in Vietnam to ensure it can support increases in demand. It is anticipated that these developments will provide the opportunity to deliver additional revenue streams in 2021 that will somewhat mitigate ongoing COVID-related risks.

In 2020 the Company saw revenue increase from $6.0m in third quarter 2020 to $10.4m in the fourth quarter; a 71% increase. As Wellington enters 2021, customer backlog and forecasts for first quarter 2021 indicate revenue returning to a more normal pre-COVID level. While first quarter demand is strong compared to previous years, this may in part be due to end customer demand being front loaded, as customers create a buffer against risk of further COVID-19 disruption.

The Company believes that the balance of 2021 will continue to be volatile and final outcomes will depend on alleviation of regional COVID-19 constraints, the timing and success of vaccine programs including potential impacts of new COVID-19 variants, how quickly customers return to normal levels of factory operation and capital expenditure, cessation of global travel restrictions and border closures, and resolution of current industry-wide electronic component shortages and global shipping and logistics challenges. The Company is also cautious about implementing excessive 'just in case' additional capacity and component inventory given the uncertain nature of the recovery.

The current business planning assumption is that beverage cooler customers will take around two years to fully recover to the revenue levels seen in 2019. The 2021 financial forecast reflects that recovery timing assumption, with revenue expected to improve materially compared to 2020.

Wellington's current US dollar revenue forecast for 2021 is in the range US$40m to US$43m. The higher end of that range would be in line with 2019 and approximately 75% ahead of 2020. First quarter 2021 revenue is forecast to be approximately US$11-12m compared to US$10.4m in 2020, and a sequential improvement from fourth quarter 2020 of US$7.1m.

With 2021 US dollar revenue in this range, the Company is targeting EBITDA earnings of between NZ$2.5 and NZ$3.0m and a modest net profit. Forecasts have been prepared at a 0.70 US$/NZ$ exchange rate and are sensitive to the US$/NZ$ exchange rate (i.e. each 1c movement has an estimated $0.2m impact on EBITDA). Wellington has adequate financial resources, including existing bank facilities, on the current outlook.

As operating conditions in Wellington's various markets continue to evolve, the Company will adapt its plans and actions to support customer demand, manage cash and continue its strategy to seek new revenue opportunities.

Wellington’s people

Beatriz Mibach

Global Head of Products

I am based in the United States managing a global team of product owners and product support experts. My responsibilities include everything that relates to products: from planning and conception to development, commercialisation and maintenance of all the products we sell today and may sell in the future. It also means defining what a product means for Wellington.

Partnering with our sales and marketing teams, as well as our engineers, I work to define products that bring value to our customers and the Company. The most fun part of the job is truly understanding what customer problems we are trying to solve, then working through the building blocks to ensure we deliver true value by recognising an opportunity nobody else has.

Our products and software solutions already are a global success, but knowing we have so much more room to grow and improve excites me every day.

Roberto Doval Castro

Sales and Customer Manager, Europe

I am based in Spain and lead business development activities in Western Europe. My key responsibilities include leading the development and implementation of a growth plan for customers, revenue and margin objectives, as well as promoting Wellington´s brand reputation by developing relationships and marketing strategies with food and retail brands. I also help develop Wellington’s IoT and motor businesses and manage key account relationships. My role gives me the chance to experience new challenges every day, from helping to solve customers’ problems, to ensuring the Company delivers for its customers.

Being part of the Wellington team means actively participating in building the Company, contributing to strategy development, and managing operations. I really enjoy the diversity of our people, different cultures, strategic ideas, and products. We have been able to build a cohesive, skilled, and bold team with successful results and a promising future.

Sebastian Jaramillo

Program Manager, Andean Region

I work as the Program Manager for the Andean region (Colombia, Peru, and Ecuador) and reside in Colombia. As a commercial support and implementation leader for the region, my main objective is to work side-by-side with our customers. I engage with customers from the first commercial contact and through the development cycle, as we create connectivity and asset management solutions and look to add the greatest value.

The generation of actionable insights using our Connect IoT data is based on the deep knowledge of what the data captured by our solutions means for customers and is fundamental for the success of my role. Working with Wellington has allowed me to expand my limits, engage with large customer accounts and utilise my experience in refrigeration, asset management and leadership. Strategic teamwork and trust in each of our team members characterise the success of the Company.

Innovation

2020 saw Wellington continue to invest in new product development and customer innovation, whilst navigating the impact of COVID-19. Wellington's strategy, to cement the Company as the leader in energy efficient EC motors and cloud connected IoT solutions for commercial refrigeration equipment, continued with several new products nearing launch.

In 2020, Wellington made great progress on the following new products for its customers.

Connect Monitor: a battery-powered retrofit product that provides data collection and proximity marketing capabilities in a device easily retrofittable to any existing "non-connected" fridge or freezer. Design was completed in 2020, with production planned for Q2 2021.

Connect SCS 400 Series: a new format controller design, the first version designed specifically for the Imbera Cooling partnership. The first 1000 pilot products were shipped in December, with full production planned for Q2 2021.

Connect Network: providing "always on" cellular connectivity, allowing over the air updates and real-time asset management, the Connect Network can operate as an individual connected sensor or as a communication hub for existing Connect SCS, Connect Monitor or Connect™ Click devices. The Connect Network is planned for pilot release in Q3 2021.

Cloud Solutions: With over one million Connect IoT devices shipped, the analytics opportunity for the Wellington Connect IoT system is expanding. Development projects in 2020 were focused on new software apps, feature additions and inclusion of new hardware into the Connect IoT platform. New software links were developed to integrate the Connect IoT solution into new customer IT infrastructure.

ECR 2+: A higher powered version of the top selling ECR 2 motor, specifically designed with a new fanpack to support larger supermarket display cases. The strength of the supermarket segment in 2020 demonstrated the need for expanding motor solutions in this area. While development of ECR 2+ was put on hold in 2020 as part of the COVID-19 cash management response, the product is only months away from design completion. The ECR 2+ is expected to launch by Q4 2021.

New product roadmap

Wellington continues to create amazing products for its customers. New software services are being explored, such as enhanced asset management tools for equipment servicing. New hardware developments will steer towards an expanded range of integrated fanpacks for supermarkets and a broadening of existing connected devices. A new research function has been created to look at next generation technologies and how these can add value to Wellington's customers.

Wellington's rebranding project

Over the last five years Wellington has successfully changed its business strategy to become an innovator in food and beverage IoT, alongside its new ECR 2 motor platform offering. This change in business strategy is not reflected in the historic Wellington Drive Technologies brand name which primarily relates to the Company's origins as a pure-play motor company. In order to support the changing business focus, 2021 will see the Company restart work on a refreshed brand. This will involve a new company name, with updated brand values and purpose to better reflect the direction of the Company as a leader in solutions to the food and beverage industry.

Directors

Gottfried Pausch

Chairman
Independent Director
Executive Appointment and Remuneration, Audit and Risk, Technology and Innovation

Gottfried Pausch is an independent director of McKay Ltd (Whangarei) and Blackhawk Tracking Systems Ltd (Auckland) and was until the end of December 2019 the Executive Chairman at AuCom Electronics Ltd (Christchurch). Gottfried holds an electrical engineering degree from Austria and a Master's degree in Business Administration from Duke University in the USA. He is a director for one of the National Science Challenges, an initiative of the Ministry of Business, Innovation and Employment (MBIE). Gottfried was the former CEO at Actronic Technologies and an executive in residence at The Icehouse. This follows a 22-year career with German engineering and electronics conglomerate Siemens, one of the world's leading suppliers of products, solutions and services in the field of technology. During this period, he held the positions of CEO Siemens Energy Services Ltd and managing director of Siemens New Zealand.

Greg Allen

Chief Executive Officer
Non independent Director

The current CEO of Wellington, Greg Allen has worked around the world leading business development, supply chain and tech manufacturing for over 30 years. He has steered Wellington through a significant and successful financial turnaround: under his leadership the Company has pivoted to IoT hardware and software solutions, grown its business with the world's leading beverage brands, and recorded record revenue and profit growth. Based in Vancouver Canada, Greg provides Wellington with the benefit of his international expertise as the Company continues to focus on providing the best IoT and EC motor solutions for the global food and beverage market. Greg holds an MBA from Napier University, Edinburgh and gained his education in radio and electronics in the New Zealand Army. Greg is currently serving on two additional advisory boards in Canada: the Richmond City Economic Advisory Committee and a Canadian fabless semiconductor start-up, focused on productizing unique wireless technology for IoT sensors.

John McMahon

Independent Director
Audit and Risk (Chair), Technology and Innovation

John McMahon has over 25 years' experience in the Australasian equity markets, predominantly as an equity analyst covering the telecommunications, media, gaming, transport and industrials sectors. Previous roles include Head of Research and Head of Equities for ABN AMRO NZ and Managing Director of ASB Securities. John is based in Sydney and manages his own investment portfolio. He is a director of two other NZX-listed companies: Solution Dynamics Ltd (SDL), and NZX Ltd (NZX), and holds a Bachelor of Commerce (Honours), an MBA and is a CFA (Chartered Financial Analyst) charter holder.

John Scott

Independent Director
Technology and Innovation (Chair)

John Scott is CEO for Invenco, a world leader in payments and forecourt solutions in the petroleum space. He is also a non-executive director for Navico, a marine electronics specialist company. He has previously had a range of c-suite roles across sales, marketing, operations and product management with Navico, Brunswick and Navman. John also had business development, engineering and project engineering roles with Ericsson/Volex (communications). He graduated from the University of Auckland in 1997 with a Bachelor of Engineering (BE Mech). John has 20 years of global experience in managing large multilocation go-to-market, operations and design teams – with deep pricing experience across all channels and markets. He has been actively involved in multiple acquisition events and fundraising activities. John has an in-depth knowledge of the rapidly developing dynamics of global electronics supply, big data and IoT growth opportunities, and has operating experience in the Asia, European and North American markets.

Keith Oliver

Independent Director
Executive Appointment and Remuneration (Chair), Audit and Risk

Keith Oliver was appointed Director at Wellington in March 2019. He is also an Independent Director at Rakon Limited and Chairman of Blackhawk Tracking Limited. He has over 20 years' experience in CEO, director and chairman roles, and has extensive experience expanding technology businesses in USA, South America, Europe, Asia and Australia. Keith was Chairman of Actronic Technologies for 10 years, and Chairman of Compac Sorting Equipment Limited, where he also held leadership and board director roles. He has Crown company governance experience in science and health, having worked as a Director of New Zealand's Institute of Environmental Science and Research Limited (ESR). Prior to his governance roles, Keith had a 20-year career in telecommunications, broadcasting, strategic planning and private equity investment in New Zealand, Australia and Europe.

Executive management

Steve Hodgson

Senior Vice President Commercial

Steve Hodgson joined Wellington in 2008 as Head of Strategy and following that as the Company's Chief Financial Officer. He was appointed Senior Vice President Commercial in 2014. Steve is responsible for the Company's commercial strategy and corporate development: he also leads global sales and marketing, including the regional growth teams, and alongside the CTO helps to seek out and secure new growth partnerships in key sectors of the business.

Howard Milliner

Chief Financial Officer

Howard Milliner was appointed as CFO in November 2012. He oversees all financial and administrative operations and helps to shape the overall strategy and direction for the company. He holds a BCom from the University of Auckland and is a chartered accountant, with accounting experience gained working for Ernst & Young London. For 14 years he held both CFO and CEO roles for NZ-listed engineering business, Mercer Group (now MHM Automation). Howard has extensive experience in managing financial operations and business acquisitions and divestments.

David Howell

Chief Technology Officer

David is currently Chief Technology Officer and has a strategic technology leadership role that includes conception of the technology plan, taking a lead role in technology and partnership acquisition, and exploring and implementing new technology models. David joined Wellington as Engineering Manager in 1999. He has previously worked in new product development roles for Rover Group (UK), Fisher and Paykel Healthcare Corporation Ltd and Tru-Test Ltd. He is listed as inventor on 14 families of international patent applications, including several of Wellington's core motor patents.

Marc Tinsel

Vice President, Supply Chain and Operations and GM Engineering

Marc is responsible for Wellington's day-to-day leadership, supply chain and operations, as well as delivery of all hardware, software and development programs. He joined Wellington in 2013 as Programme Manager for sustaining engineering, was promoted to Head of Manufacturing in 2015 then Vice President, Supply Chain and Operations in January 2019 and in November 2020 his job responsibilities were also extended to engineering. Prior to Wellington, he worked as a Project Manager for Electrix, managing multiple projects, budgets and multidisciplinary teams. Marc was also employed by internationally accredited safety testing laboratories in Auckland and London for 13 years.

Beatriz Mibach

Vice President, Global Product Management

Beatriz Mibach joined Wellington in March 2020 as Global Head of Products, where she leads the product management process from concept through to customer delivery. Beatriz has 15 years' experience across research, engineering, product management and innovation for leading global companies. She has previously held vice president roles for engineering and sales at Lancer Corporation and worked as the equipment development manager at Coca-Cola in Europe.

David Burden

Vice President, Group Marketing and IoT Products

David Burden joined Wellington in 2018 as part of the iProximity acquisition. He is an Australian entrepreneur with 30 years of experience leading start-ups and successful technology businesses. He founded and led what became Australia's largest and best-recognised interactive and mobile services company, Legion Interactive. In 2008, he joined the ASX-listed digital media company Webfirm Group (now Adslot) as group CEO. Within three years he took it from a valuation of A$2m to a peak of A$120m. In December 2013, David and Rohan Lean established an exciting new IoT company, iProximity, with a focus on proximity marketing and digital information services. iProximity was acquired by Wellington in July 2018.

Peter Barnes

Global Quality Manager

Peter Barnes is currently Global Quality Manager, responsible for product quality, quality improvement and all Company processes and procedures. Peter joined Wellington in 2003 as a senior electronic design engineer. He held many positions within the engineering team before changing his career direction and moving into quality management. Prior to starting at Wellington, Peter worked at a start-up company as a design engineer, developing various water temperature control valves for domestic and industrial applications.

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	Note	2020 $000s	2019 $000s
Revenue	2.2	**36,880**	61,719
Cost of sales		**(26,332)**	(45,085)
Gross profit		**10,548**	16,634
Other income	2.3	**1,156**	18
Operating expenses	2.4	**(11,530)**	(12,900)
Gain on remeasurement of contingent consideration	6.1b	**1,016**	467
Earnings before interest, taxation, depreciation, amortisation & impairment		**1,190**	4,219
Depreciation	3.2	**(641)**	(585)
Amortisation	3.3	**(1,686)**	(1,800)
Impairment	3.3	**(456)**	(323)
(Loss) / profit before interest & taxation		**(1,593)**	1,511
Finance income	4.2	**7**	19
Finance expenses	4.2	**(389)**	(890)
(Loss) / profit before income tax		**(1,975)**	640
Income tax expense	2.5a	**(179)**	(192)
(Loss) / profit for the year		**(2,154)**	448
Other comprehensive income:			
Items that may be reclassified subsequently to the profit or loss:			
Exchange differences on translation of foreign operations	4.5b	**(1,565)**	(322)
Other comprehensive (loss) / income for the year		**(1,565)**	(322)
Total comprehensive (loss) / income for the year		**($3,719)**	$126
(Loss) / profit for the year attributable to the Owners of the Company		**(2,154)**	448
Total comprehensive (loss) / income attributable to the Owners of the Company		**(3,719)**	126
Basic earnings per share – cents	2.6	**(0.50)**	0.17
Diluted earnings per share – cents	2.6	**(0.50)**	0.16

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 2020

2020	Note	Contributed equity $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance at 1 January 2020		**130,228**	**(114,738)**	**(2,383)**	**13,107**
Comprehensive income					
Loss for year		**-**	**(2,154)**	**-**	**(2,154)**
Other comprehensive income					
Exchange differences on translation of foreign operations	4.5b	**-**	**-**	**(1,565)**	**(1,565)**
Total comprehensive income		**-**	**(2,154)**	**(1,565)**	**(3,719)**
Contributions of equity, net of costs	4.3	**5,327**	**-**	**-**	**5,327**
Balance at 31 December 2020		**$135,555**	**($116,892)**	**($3,948)**	**$14,715**

2019	Note	Contributed equity $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance at 1 January 2019		123,627	(115,186)	(2,067)	6,374
Comprehensive income					
Profit for year		-	448	-	448
Other comprehensive income					
Exchange differences on translation of foreign operations	4.5b	-	-	(322)	(322)
Total comprehensive income		-	448	(322)	126
Share option compensation expensed	4.5a	-	-	6	6
Contributions of equity, net of costs	4.3	6,601	-	-	6,601
Balance at 31 December 2019		$130,228	($114,738)	($2,383)	$13,107

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

Consolidated Statement of Financial Position

as at 31 December 2020

	Note	2020 $000s	2019 $000s
Current Assets			
Cash and cash equivalents	3.1a	**4,610**	3,459
Trade and other receivables	3.1b	**8,624**	14,791
Derivative financial instruments	6.4	**-**	56
Inventories	3.1c	**3,417**	4,797
Total current assets		**16,651**	23,103
Non-Current Assets			
Property, plant and equipment	3.2	**2,083**	2,658
Intangible assets	3.3	**12,397**	12,147
Total non-current assets		**14,480**	14,805
Total assets		**31,131**	37,908
Current Liabilities			
Trade and other payables	3.1d	**9,872**	15,838
Contract liability	2.2	**1,044**	1,044
Provisions	3.1e	**315**	468
Borrowings	4.1	**863**	1,697
Total current liabilities		**12,094**	19,047
Non-Current Liabilities			
Borrowings	4.1	**1,170**	1,364
Contract liability	2.2	**3,152**	3,374
Contingent consideration	6.1b	**-**	1,016
Total non-current liabilities		**4,322**	5,754
Total liabilities		**16,416**	24,801
Net assets		**$14,715**	$13,107
Equity			
Contributed equity	4.3	**135,555**	130,228
Accumulated losses	4.4	**(116,892)**	(114,738)
Other reserves	4.5	**(3,948)**	(2,383)
Total equity		**$14,715**	$13,107

For and on behalf of the Board

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Director

26 February 2021

………………………

Director

26 February 2021

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 2020

	Note	2020 $000s	2019 $000s
Cash flows from operating activities			
Receipts from customers exclusive of GST/VAT		**41,531**	66,563
Payments to suppliers and employees exclusive of GST/VAT		**(42,606)**	(63,450)
Other income	2.3	**1,156**	18
Interest paid		**(404)**	(872)
Interest received	4.2	**7**	19
Taxation received		**13**	(601)
Net GST/VAT received		**643**	1,310
Net cash inflow from operating activities		**340**	2,987
Cash flows from investing activities			
Payments for property, plant and equipment	3.2	**(210)**	(411)
Proceeds from disposals of property, plant and equipment		**-**	12
Payments for intangible assets	3.3	**(3,153)**	(3,347)
Net cash outflow from investing activities		**(3,363)**	(3,746)
Cash flows from financing activities			
Cash proceeds from ordinary shares	4.3	**5,327**	5,757
New loans and drawdowns	4.1	**7,240**	8,328
Loan repayments	4.1	**(7,950)**	(10,844)
Finance lease borrowing		**27**	175
Lease repayments		**(262)**	(282)
Net cash inflow from financing activities		**4,382**	3,134
Net increase in cash and cash equivalents		**1,359**	2,375
Cash and cash equivalents at the beginning of the financial period		**3,459**	933
Effect of exchange rate movements on cash		**(208)**	151
Cash and cash equivalents at end of year	3.1a	**$4,610**	$3,459

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

Notes to the Consolidated Financial Statements

1. Basis of preparation

This section sets out the Group's significant 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 Internet of Things (IoT) solutions and manufacture, market and sell energy saving, electronically commutated (EC) motors, connected controllers and fans for worldwide use.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 26 February 2021.

1.2 Summary of Significant Accounting Policies

(a) Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with generally accepted accounting practice in New Zealand. The Group is a for-profit entity for the purposes of financial reporting. 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).

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 except for derivative financial information and contingent consideration which is measured at fair value.

New standards, amendments and interpretations not yet adopted

The following accounting standards, amendments and interpretations are mandatory for future periods and are unlikely to have a material impact on the financial statements prepared by the Company.

- Interest Rate Benchmark Reform – Phase 2 – effective from 1 January 2021
- Onerous Contracts – Cost of Fulfilling a Contract – effective from 1 January 2022
- Property, Plant and Equipment – effective from 1 January 2022
- NZ IFRS 17 Insurance Contracts – effective from 1 January 2023
- Classification of Liabilities as Current and Non-Current – effective from 1 January 2023

Going concern assumption

During 2020, the Group significantly improved its net cash position, mainly through a fully subscribed 1:3 equity rights issue that raised $5.3m, net of issue expenses. Cash at 31 December 2020 was $4.6m (2019: $3.5m) and net cash (defined as cash balances net of bank and other loans) was $2.6m (2019: $0.4m).

The Group reported a loss for the 2020 year of $2,154,000 (2019: profit of $448,000) and the operating cash inflow for the 2020 year was $340,000 (2019: $2,987,000). Trading results from April 2020 were impacted by COVID-19 causing significant customer demand reductions, although the extent of demand declines progressively abated in the latter part of 2020 and into early 2021.

In assessing the adoption of the going concern principle in the preparation of the financial statements, the Directors have reviewed a future cash flow forecast to 31 March 2022.

Unless the Group had specific knowledge of customer demand, the forecast for existing products assumed 2021 volumes at around 80% of 2019 volume and then returning to 100% in 2022. New products scheduled to be launched in 2021 were forecast to generate additional revenue of $4.1m in the 2021 year.

Directors considered two downside risk scenarios – a 10% revenue decline through to 31 March 2022 compared to forecast and a greater 20% decline.

The mitigating actions that the Group would implement if the downside volume scenarios eventuated are similar to those implemented during 2020 and include:

- extension of supplier terms by agreement;
- deferral of capital expenditure; and
- operating cost reductions.

The modelling that was undertaken supported the conclusion that the Group could continue to operate in a trading environment that was below 2019 demand levels.

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

It is possible, given the uncertain nature of customer and government responses to COVID-19 outbreaks, that the economic environment might change rapidly and the mitigating cash and cost actions available to the Group might not be adequate to fully alleviate the potential negative impacts on the Group's business. The Group's forecast scenarios are most sensitive to further revenue declines relating to customer demand, but downside scenarios indicate that this would need to decline to a level below the Board's reasonable expectation before available cash and cost mitigating actions are utilised.

Further, the Board believes that, given the support it has seen during its last two rights issues, that if needed it could rely on sourcing additional financing support to manage any interim funding requirements.

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

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

(b) Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and can 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 acquisition 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 transferred 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 and operations in the USA, China, Brazil, Turkey, Mexico, Italy, Australia, Spain 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 and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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:

Areas of estimation

- Going concern – forecasts – note 1.2a
- Probability of contingent consideration targets being achieved – note 6.1b

Areas of judgement

- Deferred tax asset – recognition – note 2.5c
- Development costs – capitalisation of expenses and impairment testing – note 3.3

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

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

Information related to each reportable segment is set out below:

	Motors	IoT	Unallocated	Total
2020	$000s	$000s	$000s	$000s
Revenue	24,418	12,462	-	36,880
Cost of goods sold	(19,275)	(7,057)	-	(26,332)
Gross profit	5,143	5,405	-	10,548
Gross margin %	*21.1%*	*43.4%*		*28.6%*
Other income	288	556	312	1,156
Operating expenses	(2,449)	(3,085)	(5,996)	(11,530)
Gain on remeasurement of contingent consideration	-	1,016	-	1,016
EBITDA	2,982	3,892	(5,684)	1,190
Depreciation	(322)	(235)	(84)	(641)
Amortisation & impairment	(408)	(1,724)	(10)	(2,142)
Loss before interest & taxation	2,252	1,933	(5,778)	(1,593)
Finance income	-	-	7	7
Finance expense	-	-	(389)	(389)
(Loss) / profit before income tax	2,252	1,933	(6,160)	(1,975)
Income tax expense	-	-	(179)	(179)
(Loss) / profit for the year	$2,252	$1,933	($6,339)	($2,154)
Non-current assets				
Property, plant & equipment	636	150	1,297	2,083
Goodwill	-	3,139	-	3,139
Other intangible assets	3,818	5,152	288	9,258
Total	$4,454	$8,441	$1,585	$14,480

2019	Motors $000s	IoT $000s	Unallocated $000s	Total $000s
Revenue	37,704	24,015	-	61,719
Cost of goods sold	(30,870)	(14,215)	-	(45,085)
Gross profit	6,834	9,800	-	16,634
Gross margin %	*18.2%*	*40.8%*		*27.0%*
Other income	-	-	18	18
Operating expenses	(2,252)	(4,031)	(6,617)	(12,900)
Gain on remeasurement of contingent consideration	-	467	-	467
EBITDA	4,582	6,236	(6,599)	4,219
Depreciation	(199)	(47)	(339)	(585)
Amortisation & impairment	(789)	(1,334)	-	(2,123)
Profit before interest & taxation	3,594	4,855	(6,938)	1,511
Finance income	-	-	19	19
Finance expense	-	-	(890)	(890)
Profit / (loss) before income tax	3,594	4,855	7,809)	640
Income tax	-	-	(192)	(192)
Profit / (loss) / for the year	$3,594	$4,855	($8,001)	$448
Non-current assets				
Property, plant & equipment	703	215	1,740	2,658
Goodwill	-	3,223	-	3,223
Other intangible assets	4,059	4,737	128	8,924
Total	$4,762	$8,175	$1,868	$14,805

(b) Geographical segments

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

Revenue from external customers by geographic areas	**2020 $000s**	2019 $000s
Americas	**28,735**	53,457
Asia / Pacific (APAC)	**3,518**	4,485
Europe / Middle East / Africa (EMEA)	**4,627**	3,777
Total	**$36,880**	$61,719

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

APAC revenue includes $184,000 (2019: $233,000) from New Zealand customers.

Major Customers

The Group has three major customers (defined as customers representing 10% or more of revenues) accounting for invoiced revenues of $13,962,000 (2019: four customers accounting for invoiced revenues of $30,285,000), all within the Americas geographic segment.

Total non-current assets	**2020 $000s**	2019 $000s
Americas	**26**	34
Asia / Pacific – mainly in New Zealand	**14,379**	14,687
Europe / Middle East / Africa	**75**	84
Total	**$14,480**	$14,805

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

2.2 Revenue

	2020 $000s	2019 $000s
Sales of goods revenue – recognised at a point in time	**35,678**	60,780
Services revenue – recognised over time	**1,202**	939
	$36,880	$61,719

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, excluding GST / VAT, rebates and discounts and after eliminating sales within the Group. The Group disaggregates revenue from contracts with customers by geographical regions, which is detailed in note 2.1(b).

(a) Sale of Goods

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

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

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

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

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

(b) Sale of services

Associated with the supply of IoT hardware, the Group supplies a range of data, and reporting services, all installed on every Connect SCS and Connect Click sold and are distinct services from the sale of goods. Revenue from the provision of such services is recognised when services are rendered to the buyer. Contracts typically cover a period from hardware supply of anywhere from 1 to 10 years, dependent on customer requirements. Contracts specify the price for the provision of the services. Revenue from such contracts is recognised on a straight-line basis over the contract term because the customer receives and uses the benefits simultaneously. As set out in note 2.2(a), no explicit element of financing is deemed present.

Contract liabilities	2020 $000s	2019 $000s
Carrying amount at start of year	**4,418**	2,972
Invoiced in the year	**1,310**	2,723
Recognised in revenue	**(1,202)**	(939)
Reclassified to intangible assets	**-**	(331)
Exchange adjustment	**(330)**	(7)
Carrying amount at end of year	**$4,196**	$4,418
Current portion	**1,044**	1,044
Non-current portion	**3,152**	3,374
	$4,196	$4,418

2.3 Other income

	2020 $000s	2019 $000s
Net foreign exchange gains	**18**	-
Covid-19 Government support	**1,090**	-
Other income	**48**	18
	$1,156	$18

All the eligibility conditions relating to Covid-19 government support payments were met.

2.4 Operating expenses include

	2020 $000s	2019 $000s
Wages and salaries and other short-term benefits	**9,807**	10,088
Employer contributions to Kiwisaver and 401K plans	**324**	343
Employee share options expense	**-**	6
Total employee benefits	**$10,131**	$10,437
Capitalisation of labour and expenses to intangible assets	**($3,099)**	($3,191)

The amount disclosed above for wages and salaries is stated before capitalisation of labour to intangible assets.

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.

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, except for 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 $179,000 (2019: $192,000) is payable in respect of some overseas subsidiaries.

(b) Unrecognised tax losses

	2020 **$000s**	2019 $000s
Reported (loss)/ profit for period before tax	**(1,975)**	640
Non-deductible / non-assessable items	**(1,670)**	(234)
Unrecognised timing differences	**1,726**	2,758
Net taxable income for tax purposes	**(1,919)**	3,164
Losses carried forward from prior years	**(99,408)**	(101,593)
Adjustment of prior periods	**(2,127)**	48
Overseas taxable income	**(50)**	(364)
Exchange adjustments	**1,204**	(663)
Losses available to carry forward to future years	**($102,300)**	($99,408)

Of the total consolidated losses available to carry forward to future years, $3,904,000 (2019: $1,498,000) 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 2020 year no USA Federal tax losses expired (2019: 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. This is due to uncertainty as to where revenues will be recorded, as customers determine which warehouse and therefore which legal entity shall supply them. 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:

	2020 $000s	2019 $000s
Doubtful debts	**45**	39
Inventory provisions and eliminations	**207**	242
Employee benefits	**338**	332
Internally generated development	**1,992**	1,362
Warranty provision	**88**	131
Rebates	**152**	140
Fixed assets	**(153)**	(228)
Right of use lease liability	**(327)**	(378)
Other timing differences	**(3)**	(11)
Tax losses to carry forward	**27,211**	26,373
Unrecognised net deferred tax asset	**$29,550**	$28,002

(d) Imputation credits

The Group has no imputation credits available (2019: $nil) and no movements occurred in the Imputation Credit Account (2019: $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 0.50 cents (2019: profit of 0.17 cents) is calculated by dividing the loss attributable to equity holders of the Company of $2,154,000 (2019: profit of $448,000) by the weighted average number of ordinary shares in issue during the year of 431,914,620 (2019: 266,455,298).

Diluted EPS of a loss 0.50 cents (2019: profit of 0.16 cents) is calculated by dividing the loss attributable to equity holders of the Company of $2,154,000 (2019: profit of $448,000) by the weighted average number of shares in issue during the year, after adjusting for effects of all dilutive potential ordinary shares. At 31 December 2020, the following instruments existed that 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	**2020**	2019
Part paid shares	**421,980**	-

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 generates through its trading activities. The Group therefore defines working capital as cash, trade and other receivables, inventory, trade and other payables and provisions.

(a) Cash and cash equivalents

Cash and cash equivalents include 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.

	2020 $000s	2019 $000s
Cash on hand and at bank	**2,251**	819
Call deposits	**2,283**	2,564
Short term bank deposit	**76**	76
	$4,610	$3,459

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

NZD	**636**	2,026
USD	**3,738**	1,090
Other	**236**	343
	$4,610	$3,459

(b) Trade and other receivables

Trade receivables are recognised initially at the value of the invoice sent to the customer. The Group generally holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Trade receivables are generally due for settlement no more than 120 days from the date of recognition.

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

NZ IFRS 9 requires the Group to calculate expected credit losses on trade receivables using a provision matrix. The Group has reviewed its credit loss experience over the period from 2013 to 2020 and has determined that the probability weighted credit loss experience over that period was approximately 0.1% of revenue. Consideration has been given to market environmental factors to determine whether future conditions will impact. The provision for expected credit loss at balance date has been calculated at 1.5% for customers assessed as higher risk and 0.1% for all others (2019: 0.1%).

	2020 $000s	2019 $000s
Trade receivables	**7,695**	13,848
Provision for loss allowance	**(157)**	(150)
Net trade receivables	**7,538**	13,698
Prepayments	**462**	544
VAT/GST refunds due	**113**	56
Income tax refund due	**253**	445
Other receivables	**258**	48
	$8,624	$14,791

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

	2020	2019
NZD	**85**	12
USD	**7,163**	14,070
EUR	**702**	117
MXP	**304**	392
Other	**370**	200
	$8,624	$14,791

Provision for loss allowance		
Carrying amount at start of year	**150**	130
Increase in loss allowance	**7**	20
Exchange adjustment	**-**	-
Carrying amount at end of year	**$157**	$150

The increase 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 based on 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. Judgments are made about expected selling prices and obsolescence based on forecast sales. A provision is recognised for inventory which is expected to sell for less than cost.

	2020 $000s	2019 $000s
Finished goods – at cost	**2,833**	4,288
Work in progress – at cost	**383**	726
Raw materials – at cost	**655**	319
Less inventory provisions	**(454)**	(536)
Total inventories	**$3,417**	$4,797

Cost of inventories recognised as an expense and included in cost of sales $25,051,000 (2019: $42,934,000).

(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 date. The amounts are unsecured and are usually paid within 90 days of recognition.

	2020 $000s	2019 $000s
Trade payables	**7,375**	13,402
Employee entitlements	**1,620**	1,556
Accrued expenses	**877**	880
	$9,872	$15,838

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

	2020	2019
NZD	**2,143**	2,069
USD	**7,355**	13,382
Other	**374**	387
	$9,872	$15,838

(e) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation because of past events, 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 goods 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	2020 $000s	2019 $000s
Carrying amount at start of year	**468**	415
Additional provisions recognised	**12**	224
Amounts used	**(148)**	(170)
Exchange adjustment	**(17)**	(1)
Carrying amount at end of year	**$315**	$468

3.2 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items and the costs of bringing the asset to the location and condition for it to be capable of operating in the manner intended.

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 of owned 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
Property	12 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 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	Properties $000s	Total $000s
Year ended 31 December 2019				
Opening net book amount	1,343	220	1,291	2,854
Reclassification	-	(37)	37	-
Additions	290	121	-	411
Depreciation	(273)	(125)	(187)	(585)
Disposals	(10)	(3)	-	(13)
Exchange adjustment	(15)	6	-	(9)
Closing net book amount	$1,335	$182	$1,141	$2,658
At 31 December 2019				
Cost	6,481	1,972	2,115	10,568
Accumulated depreciation and impairment	(5,137)	(1,731)	(1,015)	(7,883)
Exchange adjustment	(9)	(59)	41	(27)
Net book amount	$1,335	$182	$1,141	$2,658
Year ended 31 December 2020				
Opening net book amount	**1,335**	**182**	**1,141**	**2,658**
Reclassification	**(176)**	**110**	**66**	**-**
Additions	**142**	**68**	**-**	**210**
Depreciation	**(316)**	**(125)**	**(200)**	**(641)**
Disposals	**-**	**-**	**-**	**-**
Exchange adjustment	**(71)**	**(11)**	**(62)**	**(144)**
Closing net book amount	**$914**	**$224**	**$945**	**$2,083**
At 31 December 2020				
Cost	**6,180**	**1,023**	**2,178**	**9,381**
Accumulated depreciation and impairment	**(5,186)**	**(729)**	**(1,212)**	**(7,127)**
Exchange adjustment	**(80)**	**(70)**	**(21)**	**(171)**
Net book amount	**$914**	**$224**	**$945**	**$2,083**

The above amounts include those relating to right-of-use assets. Refer to note 6.5 for further disclosures.

Capital commitments

Capital commitments contracted for at 31 December 2020 amounted to $95,000 (2019: $127,000).

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 to produce 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. This involves the use of judgement. Development costs are capitalised once it can be demonstrated that the asset is supported by future economic benefits. Management considers the following criteria when making its judgment 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.

All capitalised development costs met the criteria as outlined above.

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 10 years for motors and up to a maximum of 5 years for SCS Controllers. Judgment is involved in determining this period of benefit. For motors, the Group considered the earlier versions of motors and the length of time from completion to continued sales contribution; whereas for SCS controllers, the Group considered that 5 years is an appropriate life given the inherent risk of rapid technological change.

Patents
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 based on 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 maintaining computer software programmes are recognised as an expense as incurred.

Impairment testing 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).

Goodwill is tested annually for impairment, or immediately if events or changes in circumstances indicate that it might be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

	Internally Generated Development $000s	Patents $000s	Goodwill $000s	Other $000s	Total $000s
Year ended 31 December 2019					
Opening net book amount	7,535	383	896	156	8,970
Restatement for acquisition accounting	-	-	2,327	-	2,327
Opening net book amount - restated	7,535	383	3,223	156	11,297
Reclassification from contract liability	(331)	-	-	-	(331)
Additions	3,246	47	-	54	3,347
Amortisation	(1,587)	(90)	-	(123)	(1,800)
Impairment	(290)	(33)	-	-	(323)
Exchange adjustment	(45)	2	-	-	(43)
Closing net book amount	$8,528	$309	$3,223	$87	$12,147
At 31 December 2019					
Cost	17,618	1,526	3,223	735	23,102
Accumulated amortisation & impairment	(9,527)	(1,245)	-	(632)	(11,404)
Exchange adjustment	437	28	-	(16)	449
Net book amount	$8,528	$309	$3,223	$87	$12,147
Year ended 31 December 2020					
Opening net book amount	**$8,528**	**$309**	**$3,223**	**$87**	**$12,147**
Reclassification	**(102)**	**(1)**	**(4)**	**107**	**-**
Additions	**3,088**	**46**	**-**	**19**	**3,153**
Amortisation	**(1,592)**	**(81)**	**-**	**(13)**	**(1,686)**
Impairment	**(412)**	**(44)**	**-**	**-**	**(456)**
Exchange adjustment	**(656)**	**(12)**	**(80)**	**(13)**	**(761)**
Closing net book amount	**$8,854**	**$217**	**$3,139**	**$187**	**$12,397**
At 31 December 2020					
Cost	**20,604**	**1,571**	**3,219**	**861**	**26,255**
Accumulated amortisation & impairment	**(11,531)**	**(1,370)**	**-**	**(645)**	**(13,546)**
Exchange adjustment	**(219)**	**16**	**(80)**	**(29)**	**(312)**
Net book amount	**$8,854**	**$217**	**$3,139**	**$187**	**$12,397**

Goodwill relates to the iProximity Pty Limited which is a component of the IoT reportable segment.

Internally generated development costs include $5,493,000 (2019: $3,153,000) for projects underway and not complete at balance date. This cost is not yet being amortised. An impairment assessment has been performed at 31 December 2020 considering 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	**2020 $000s**	2019 $000s
Amortisation of intangible assets	**1,686**	1,800
Impairment of intangible assets	**456**	323
	$2,142	$2,123

Impairment losses have been recognised as follows:

Patent costs – $44,000 (2019: $33,000) - The carrying value of patents which were not renewed.

Internally generated development costs - $412,000 (2019: $290,000) - the carrying value of costs for the development of a Connect SCS retrofit device has been impaired. Demand for the product has not attained expected levels and the new Connect Monitor battery retrofit device due for launch in early 2021 is expected be a preferred solution for customers.

Goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations with indefinite lives has been allocated to the IoT Cash Generating Unit (CGU) which is also an operating and reportable segment for impairment testing. The Group performed its impairment test at 31 December 2020.

The recoverable amount of the IoT CGU at 31 December 2020 has been determined based on a value in use calculation using cash flow projections from the annual operating plan approved by senior management for 2021, together with forecasts for 2022, 2023 and 2024. The pre-tax discount rate applied to cash flow projections is 14% (2019: 14%) and cash flows beyond 2023 using a 5.0% growth rate (2019: 5%).

The calculation of value in use is most sensitive to the following assumptions:

- gross margins;
- completion and launch of new IoT products under development and retaining volumes to current customers;
- growth rates used to extrapolate cash flows beyond the forecast period; and
- operating expense increases.

Gross margins are based on current pricing and product costs. The gross margin in 2020 was 43.4% and is forecast in the range of 44.6% to 45.7% for the four years 2021 - 2024. The forecasts include revenues on products currently under development that are expected to launch in 2021. The amount of revenue in respect of these new products in 2021 is $US2.8m and $US8.2m in 2022. For existing products, the forecast assumes that demand returns to pre-Covid levels (2019) over a two-year period (2021 and 2022). The assumption is that operating expenses comprising mainly employee costs are maintained at the same ratio to sales. In the 2021 operating plan, the ratio of operating expenses to revenue is 19.1%

As a result of this analysis, management did not identify an impairment for this CGU.

4. Capital and financing costs

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

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

	2020 $000s	2019 $000s
Current portion		
Bank trade finance facility	**572**	1,420
Liabilities in respect of right-of-use assets	**217**	198
Other liabilities	**74**	79
Liability at end of year	**$863**	$1,697
Non-Current portion		
Liabilities in respect of right-of-use assets	**992**	1,180
Bank term loan	**73**	-
Other borrowings	**105**	184
Liability at end of year	**$1,170**	$1,364

Borrowings, other than in respect of right-of-use assets, are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date. Borrowing costs are expensed when incurred.

Accounting policies relating to lease liabilities are outlined in note 6.5.

Movements in bank and other loans during the year were:

	2020 $000s	2019 $000s
Liability at start of year	**1,420**	3,894
New loans and drawdowns	**7,240**	8,328
Repayments	**(7,950)**	(10,844)
Exchange adjustment	**(65)**	42
Liability at end of year	**$645**	$1,420

Bank trade finance facility

In 2018 the Company was offered and accepted a trade finance facility. The facility was increased to $2.5m in June 2020. The bank holds a security interest over financed trade receivables. The facility has no term and is repayable on demand. The Company can finance invoices to certain customers over a maximum term of 120 days. Interest is payable at a 3% margin above bank base lending rate. The weighted average interest rate charged in 2020 was 4.11% (2019: 6.61%). An interest cover covenant applies with which the Company is in compliance.

Bank term loan

The Company's US subsidiary borrowed US$52,100 under the Small Business Act. The SBA loan has monthly repayments over a 30-year term with repayments commencing in July 2021. Interest is payable at 3.75% pa.

4.2 Finance

	2020 $000s	2019 $000s
Finance income		
Other interest income	7	19
	$7	$19
Finance expenses		
Interest expense – Bank trade finance facility	87	85
Interest expense – Smartshares Limited	-	30
Interest expense – Meta Capital Limited	-	128
Interest expense – Onimeg Investments Limited	-	284
Other interest expense	302	363
	$389	$890

4.3 Contributed equity

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

	2020 Shares	2019 Shares	2020 $000s	2019 $000s
Ordinary shares – fully paid	431,914,620	322,707,005	135,553	130,202
Ordinary shares – partly paid	421,980	5,810,742	2	26
US employee share options	-	1,058,372	-	-
Total shares and options on issue	432,336,600	329,576,119	$135,555	$130,228

(a) Ordinary shares – fully paid

Opening balance of ordinary shares on issue	322,707,005	257,436,000	130,202	123,590
Issue of ordinary shares during the year:				
• Rights issue	107,978,028	53,232,829	5,399	5,323
• Issue pursuant to iProximity acquisition	-	4,724,482	-	844
• Exercise of part paid shares and options	1,229,587	7,313,694	69	597
• Share issue costs	-	-	(117)	(152)
Ordinary fully paid shares on issue at year end	431,914,620	322,707,005	$135,553	$130,202

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	5,810,742	12,460,638	26	37
Exercise of part paid shares during the year	(940,940)	(6,553,681)	(1)	(11)
Surrendered or lapsed	(4,447,822)	(96,215)	(23)	-
Ordinary part paid shares on issue at year end	421,980	5,810,742	$2	$26

For further details of part paid shares see 6.2c

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

	2020 Share Options	2019 Share Options
Options outstanding at start of year	**1,058,372**	1,818,385
Exercise of US employee options during the year	**(288,647)**	(760,013)
Surrendered or lapsed	**(769,725)**	
Outstanding at end of year	**-**	1,058,372

4.4 Accumulated losses

	2020 $000s	2019 $000s
Opening balance	**(114,738)**	(115,186)
Profit / (loss) for the year	**(2,154)**	448
Accumulated losses at end of year	**($116,892)**	($114,738)

4.5 Other reserves

	2020 $000s	2019 $000s
Share option compensation reserve	**322**	322
Currency translation reserve	**(4,270)**	(2,705)
	($3,948)	($2,383)

(a) Share Option Compensation Reserve

	2020 $000s	2019 $000s
Share based compensation recognised at start of year	**322**	316
Net compensation expensed	**-**	6
	$322	$322

(b) Currency Translation Reserve

	2020 $000s	2019 $000s
Opening balance	**(2,705)**	(2,383)
Exchange losses on translation of foreign operations	**(1,565)**	(322)
	($4,270)	($2,705)

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, derivatives and contingent consideration.

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 Company's functional currency is USD. 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 Group is primarily exposed to changes in other currencies against the USD exchange rate. The Group's exposure to foreign currency risk at the end of the reporting period, expressed in NZD was:

	2020		2019	
	Carrying amount $000	**Currencies other than USD $000**	Carrying amount $000	Currencies other than USD $000
Cash	**4,610**	**872**	3,459	2,369
Trade and other receivables	**8,624**	**1,461**	14,791	1,006
Trade and other payables	**(9,872)**	**(2,517)**	(15,838)	(2,456)
Borrowings	**(2,033)**	**(1,388)**	(3,061)	(1,641)

The sensitivity of profit or loss to changes in the exchange rates arises mainly from changes in other currencies against the USD exchange rate. The impact on post tax profit holding all other variables constant at 10% sensitivity movement is as follows:

	2020 $000s	2019 $000s
USD exchange rate increase 10% relative to other currencies	**113**	52
USD exchange rate decrease 10% relative to other currencies	**(113)**	(52)

The impact on other components of equity is not material because of minimal foreign forward exchange contracts designated as cash flow hedges.

Interest Rate Risk

The interest rate on the bank trade finance facility is at variable rates. All other debt is fixed interest.

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 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 date represents the maximum exposure to credit risk.

At balance date, the Group had three major debtors (defined as debtors representing 10% or more of trade receivables) accounting for outstanding debt of $2,952,000 (2019: three debtors accounting for outstanding debt of $6,452,000).

At balance date, trade receivables of $655,000 were past due but not considered impaired (2019: $1,285,000). Of this amount $622,000 (2019: $587,000) was 3 months or more overdue.

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

Cash and cash equivalents are deposited with several financial institutions in New Zealand and overseas. $2,205,000 is deposited with a major NZ trading bank with a Standard and Poors rating of AA- (2019: $2,031,000 AA-) and $1,851,000 (2019: $486,000) with Western Union. The remaining balance of $554,000 (2019: $942,000) is held across several 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 maintains 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.

	2020			2019		
$000s	**Less than 6 months**	**7 to 12 months**	**2 to 5 years**	Less than 6 months	7 to 12 months	2 to 5 years
Trade and other payables	**9,785**	**-**	**-**	15,729	-	-
Borrowings	**572**	**-**	**73**	1,420	-	-
Lease liabilities	**143**	**148**	**1,097**	143	134	1,364
	$10,500	**$148**	**$1,170**	$17,292	$134	$1,364

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

(d) Capital risk management

The Company closely monitors its cash requirements.

Covid-19 had a significant impact on the Company's trading volumes and Wellington's customers took longer than agreed terms to settle pre-Covid trading balances. The Company responded to the impending cash shortfall by implementing cost reductions and stringent controls over expenditure and applied for wage support (or similar programs) wherever available. In addition, the Company extended supplier payment terms, negotiated an increase in its trade finance facility to $2.5m, borrowed $0.1m under the US SBA loan program, raised $5.3 million from a 1:3 renounceable rights issue and raised $0.1 million from the issue of shares to employees pursuant to employee share schemes.

The Group has complied with financial covenants under the bank trade finance facility.

Gearing ratio	**2020 $000s**	2019 $000s
Total borrowing	**2,033**	3,061
Total equity	**14,715**	13,107
Gearing	**13.8%**	23.4%

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

(a) The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1.2b.

	Country of incorporation	Class of shares	2020	2019
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 Refrigeration 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%
iProximity Pty Limited	Australia	Ordinary	**100%**	100%
Wellington Iberia S.L.	Spain	Ordinary	**100%**	-

Wellington Iberia S.L. was incorporated in 2020 to initially employ a sales executive based in Spain.

All subsidiaries have a common balance date of 31 December.

(b) Contingent consideration for acquisition of subsidiary

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

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

The purchase consideration was:

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

EBIT targets were not achieved so the A$500,000 cash consideration is not payable and the 9,448,964 fully paid ordinary shares are not required to be issued in respect of those targets. The Company has agreed to extend the period for the SCS Target to be achieved to 31 December 2021 and increased the number of units required to be sold for the remaining shares to be issued. 4,724,482 ordinary shares in the Company have been issued to 31 December 2020. A further 4,724,482 will be issued should the SCS Targets be achieved.

The Group's current forecasts for the 2021 financial year for sales of Connect SCS are below the agreed SCS Target. The fair value of the share-based contingent consideration was determined to be Nil at 31 December 2020 and the resultant decrease in contingent consideration of $1,016,000 has been recognised as a fair value gain in the Statement of Comprehensive Income.

Contingent consideration	2020 $000s	2019 $000s
Fair value at start of year	**1,016**	2,327
Fair value at date of acquisition	**-**	-
Part settlement during the year	**-**	(844)
Remeasurement recognised in income statement	**(1,016)**	(467)
Total	**-**	$1,016

6.2 Related party transactions

(a) Directors

The names of persons who are directors of the Company are on pages 22 to 24.

(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.

	2020 $000s	2019 $000s
Salaries, fees and other short-term benefits	**1,351**	1,934
Share based remuneration	**-**	2
Directors' remuneration	**168**	226
Total	**$1,519**	$2,162

(c) Employee share-based remuneration

Equity settled, share based compensation is provided to employees via the Wellington Partly Paid Share Scheme and the US 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 2020 (numbers)**	Outstanding at 2019 (numbers)
24 Jun 2013	24 Jun 2017	30 Apr 2020	16.29	16.29	15.79	**-**	1,443,235
18 Jun 2014	18 Jun 2017	28 Feb 2020	14.22	14.22	13.72	**-**	1,260,587
23 Jul 2014	23 Jul 2017	30 Apr 2020	14.73	14.73	14.23	**-**	1,744,000
1 Jul 2015	1 Jul 2018	1 Jul 2020	5.65	5.65	5.53	**-**	940,940
30 Sep 2016	30 Sep 2019	30 Sep 2021	18.17	18.17	17.81	**421,980**	421,980
						421,980	5,810,742

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.

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.

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.

U.S. employee share options

In June 2010 the Company established the United States Employees Share Option Plan under which the Company can issue up to 3,000,000 options. 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 2020** (numbers)	Outstanding at 2019 (numbers)
24 Jun 2013	30 Apr 2020	16.9	-	288,647
23 Jul 2014	30 Apr 2020	14.3	-	288,647
21 Aug 2014	30 Apr 2020	12.2	-	96,216
1 Jul 2015	30 Apr 2020	5.59	-	288,647
30 Sep 2016	30 Sep 2020	18.2	-	96,215
			-	1,058,372

(d) Incentive scheme – deferral of settlement

At 31 December 2019, the Company had a liability under a short-term incentive plan (STI) to senior executives amounting to $857,000 in respect of 2019 on target performance. This was payable in March 2020. To assist the Company to manage its cash flow following the Covid-19 demand reductions, executives agreed to a delay in payment of the STI liability until 31 March 2021. Interest on the outstanding amount would be payable at 10% pa. The amount due to staff at 31 December 2020 was $885,000. This has been settled in full after balance date.

(e) East West Manufacturing LLC

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

	2020 $000s	2019 $000s
Purchases from East West	**19,685**	36,990
Sales to East West	**459**	1,580
Cash payments to East West	**26,036**	38,518
Cash receipts from East West	**879**	1,169
Trade receivable from East West at 31 December	**45**	466
Trade payable to East West at 31 December	**4,285**	10,636
Interest payments to East West for extended credit terms	**103**	-

(f) Loan to employee by Mr J McMahon

In April 2019 and April 2020, Mr J McMahon, a director of the Company, in his private capacity, provided cumulatively a $30,651 interest-free bridging loan to an employee to enable the employee to exercise his entitlement under the US Employees Option Plan. The loan was repaid in early 2021.

6.3 Contingencies

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

6.4 Financial instruments by category

	2020 $000s	2019 $000s
Assets per Statement of Financial Position		
Financial assets measured at amortised cost		
Trade and other receivables	**8,258**	14,290
Cash and cash equivalents	**4,610**	3,459
Derivatives used for hedging at fair value through Statement of Comprehensive Income		
Derivative financial instruments	**-**	56
	$12,868	$17,805
Liabilities per Statement of Financial Position at amortised cost		
Trade and other payables	**9,872**	15,838
Borrowings	**2,033**	3,061
Contingent consideration	**-**	1,016
	$11,905	$19,915

Fair value estimation

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

The forward exchange contract has been classified as Level 2.

The different levels have been defined as follows:

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

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value. The fair value of contingent consideration in respect of the acquisition of iProximity Pty Limited is determined using the estimated number of shares that are to be issued to the vendors pursuant to the purchase agreement and the Company's share price at balance date. The probability adjusted number of shares and the Company share price at the acquisition date, 31 December 2020 and 31 December 2019 are set out in note 6.1b.

6.5 Leases

Property, plant and equipment in the Statement of Financial Position shows the following amounts related to leases of right-of-use assets:

Right-of-use assets	2020 $000s	2019 $000s
Properties	**893**	1,141
Plant & equipment	**40**	23
Office equipment and furniture & fittings	**8**	12
Total	**$941**	$1,176

Additions to right-of-use assets in the year	2020 $000s	2019 $000s
Plant & equipment	**27**	25
Office equipment and furniture & fittings	**-**	13
Total	**$27**	$38

The Consolidated Statement of Comprehensive Income shows the following amounts related to right-of-use leases:

Depreciation charge for right-of-use assets		
Properties	**170**	182
Plant & equipment	**9**	7
Office equipment and furniture & fittings	**3**	1
Total	**$182**	$190
Interest expense on lease liabilities	**$86**	$95
Expense relating to short-term leases (included in operating expenses)	**$37**	$51

The Consolidated Cash Flow Statement shows the following amounts related to right-of-use leases:

Total principal payments for right-of-use assets	**$193**	$189

The Group leases property, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms for equipment and cars tend to be industry standard. Other leases are negotiated on an individual basis.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to Statement of Comprehensive Income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments based on an index or rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments or penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Statement of Comprehensive Income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets of a value of US$5,000 or less.

Lease renewal options are included in the property lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise the renewal option. Renewal options are only included in the lease term if the lease is reasonably certain to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

6.6 Other disclosures

Auditors' remuneration	**2020 $000s**	2019 $000s
Deloitte appointed October 2019		
- Audit of financial statements of the Group – current year	**147**	119
- Audit of the financial statements of the Group – last year	**40**	-
- Non audit services *1	**26**	31
PricewaterhouseCoopers resigned October 2019		
- Audit of financial statements of the Group	**-**	46
- Procedures over interim financial statements of the Group	**-**	6
Audit of subsidiaries by other auditors – Thong & Lim	**4**	1
	$217	$203

*1 Non audit services relate to tax compliance and payroll services.

6.7 Cash flow information

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

	2020 $000s	2019 $000s
(Loss) / profit for the year	**(2,154)**	448
Adjustments for:		
Depreciation, amortisation & impairment	**2,783**	2,708
Share based payments	**-**	6
(Decrease) / increase in inventory provision	**(82)**	391
Increase / (decrease) in loss allowance provision	**7**	20
(Decrease) / increase in provision for warranty	**(153)**	53
Change in fair value of contingent consideration	**(1,016)**	(467)
Net foreign exchange differences	**(478)**	(113)
Decrease in trade and other receivables	**6,160**	3,167
(Decrease) / increase in contract liabilities	**(222)**	1,446
Decrease / (increase) in inventories	**1,461**	(298)
(Decrease) in trade and other payables	**(5,966)**	(4,374)
Net cash inflow from operating activities	**$340**	$2,987

(b) Net cash / (debt) reconciliation

	2020 $000s	2019 $000s
Cash and cash equivalents	**4,610**	3,459
Borrowings – repayable within one year	**(863)**	(1,697)
Borrowings – repayable after one year	**(1,170)**	(1,364)
Net cash / (debt)	**$2,577**	$398

The bank trade finance facility is at variable interest rates. All other borrowings are at fixed interest rates, with borrowings movements disclosed in note 4.1. The increase in cash during the year of $1,151,000 (2019: $2,526,000 included a $208,000 decrease (2019: $151,000 increase) caused by exchange rate movement.

6.8 Events after reporting date

There are no events after reporting date requiring disclosure.

Deloitte.

Independent Auditor's Report

To the Shareholders of Wellington Drive Technologies Limited

Opinion

We have audited the consolidated financial statements of Wellington Drive Technologies Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, statement of movements in equity and cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 28 to 61, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and 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 ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the entity.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $610,000.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key audit matter	How our audit addressed the key audit matter
Evaluation of cash flow forecasts supporting the use of the going concern assumption The financial statements have been prepared on a going concern basis as discussed in note 1.2(a). With the exception of 2019, the Group has historically incurred operating losses. Accumulated losses shown in the Consolidated Statement of Financial Position totalled $116.9 million as at 31 December 2020 (2019: $114.7 million). In the current year, the Group reported a loss of $2.2 million as a result of COVID-19 causing significant customer demand reductions. In response, the Group has improved its net cash position by deferring capital expenditure, extending supplier terms, the completion of an equity rights issue, operating cost reductions and obtaining government wage subsidies. In determining that the use of the going concern assumption is appropriate, the Board of Directors prepared cash flow forecasts to assess the Group's ability to generate sufficient cash flows to pay its debts as they fall due for a period of at least 12 months from the date of approval of these financial statements. Cash flow forecasts were prepared using key inputs and assumptions including: - revenue and gross margin growth over the forecast period; - operating, financing and capital expenditure over the forecast period; and - judgement relating to the impact of macroeconomic factors on the group's supply chain, particularly as a result of government responses to COVID-19 measures. The cash flow forecasts used in the going concern assessment are considered to be a key audit matter due to the high level of judgement and estimation uncertainty, extent of auditor attention and the importance to the financial statements as a whole.	In assessing the appropriateness of the cash flow forecasts used in the going concern assessment, our procedures included, amongst others: • Obtaining an understanding of the Group's strategy, business plan and the controls and processes in place for preparing and approving the cash flow forecast to support the going concern assumption. • Assessing the Group cashflow forecast prepared for a period of at least 12 months from the date of approval of the financial statements. This involved obtaining an understanding of the inputs to the model and challenging key judgements and assumptions, as follows: - Assessing the reasonableness of forecast sales based on our understanding of historical sales trends including volumes at a customer level compared to historical levels; - Challenging the reliability of the Group's revenue growth rates by comparing forecast growth rates to historical forecasts and actual results. This also included consideration of COVID-19 on both forecast revenue and profitability of the Group; - Assessing the operating, financing and capital cash flow requirements of the Group over the forecast period; and - Performing sensitivity analysis over key assumptions in the model such as forecast revenue and gross margin. • Checking the mechanical accuracy of the cash flow forecast. • Reviewing the bank facility terms; including the Group's ability to meet repayment terms and comply with covenant restrictions.
Capitalisation of internal development costs The Group capitalised $3.1 million of internal development costs (2019: $3.2 million), as set out in note 3.3 'Intangible assets'. This includes capitalised employee and contractor time. Judgement is required to determine if the recognition criteria to capitalise costs of development under NZ IAS 38 *Intangible Assets* have been met. Key areas of judgement include assessments of technical feasibility, likelihood of generating future economic benefits and the availability of funding necessary for completing the products. We have included capitalisation of internal development costs as a key audit matter due to the level of judgement required to determine whether the costs meet the criteria for capitalisation, the manual nature of the calculation and the growing importance of development of IoT and new motor products.	We have evaluated the appropriateness of internal development costs capitalised by: • Challenging the Group's determination of which development costs meet the criteria to be capitalised under NZ IAS 38. We obtained an understanding of the nature of the projects from management, including how they are used in the business, the stage of development, and the likelihood of the development being successfully completed and used to generate revenue. • Checking capitalisation of cost calculations for mathematical accuracy. • Testing the amounts capitalised on a sample basis and agreeing this to underlying evidence, including, for employee and contractor costs allocated to development projects, testing a sample of hours worked on each project and the relevant wage rates.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group 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 on behalf of the Group 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 and ISAs (NZ) 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 consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters 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's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Paul Seller, Partner
for Deloitte Limited
Auckland, New Zealand
26 February 2021

This audit report relates to the consolidated financial statements of Wellington Drive Technologies Limited (the 'Company') for the year ended 31 December 2020 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 26 February 2021 to confirm the information included in the audited consolidated financial statements presented on this website.

Statutory information

Introduction

Directors have resolved that no dividend be declared payable.

The company does not have a credit rating.

Remuneration of Directors

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

	2020	2019
Mr J. McMahon [1]	**$23,333**	$56,667
Mr G. Pausch [2]	**$69,333**	$41,667
Mr K Oliver [3 & 4]	**$32,500**	$33,750
Mr J. Scott [4]	**$30,000**	$33,032
Mr G Allen [5]	**-**	-
Mr T. Nowell [6]	**-**	$12,115
Dr L. Jacobs [7]	**$9,167**	$44,583

Note.
1. Fees for Mr J. McMahon are paid to Meta Capital Ltd.
2. Fees for Mr Pausch are paid to Board Advisory Services Ltd.
3 Fees for Mr K Oliver are paid to Alto Capital Ltd.
4. Mr Scott and Mr Oliver were both appointed as directors in 2019.
5. Mr Allen was appointed a director on 30 October 2020.
6. Mr Nowell resigned in March 2019
7. Dr Jacobs resigned with effect from 28 February 2020.

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 of the directors.
- Directors' remuneration: remuneration details of directors are provided above. Gottfried Pausch's remuneration includes a $36,000 consultancy fee paid for his interim Auckland based executive role. Greg Allen receives remuneration for his role as CEO and is not entitled to a fee for his directorship.
- 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 2020 was $90,260 (2019: $67,763).
- Directors' share transactions: On 22 July 2020, the Company issued 107,978,028 shares pursuant to a 1:3 rights issue at $0.05 per ordinary share. Meta Capital Limited and Auro Investment Management Pty Limited, companies related to John McMahon, were issued 5,056,484 ordinary shares. 354,160 ordinary shares were issued to Gottfried Pausch at the same time. In November 2020, directors (or companies related to directors) acquired 3,500,000 ordinary shares on market. There were no other changes in directors' shareholdings during the 2020 year. Details of numbers of shares held by directors are shown below.
- Directors' loans: There were no loans by the company to directors.

- The Board received no notices during the year from directors requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

Directors' shareholding

Ordinary shares	31 December 2020 Total Relevant Interest	31 December 2020 Direct	31 December 2019 Total Relevant Interest	31 December 2019 Direct
Mr J. McMahon	**19,178,253**	**-**	12,471,769	-
Mr J Scott	**-**	**850,000**	-	-
Mr G Allen	**-**	**7,493,382**		6,642,049
Mr G Pausch	**-**	**2,416,640**		1,062,480

Part paid shares	31 December 2020 Total Relevant Interest	31 December 2020 Direct	31 December 2019 Total Relevant Interest	31 December 2019 Direct
Mr G Allen	**-**	**-**	-	1,260,587

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 2020	Group 2019
$100,000 - $109,999	**6**	3
$110,000 - $119,999	**5**	3
$120,000 - $129,999	**4**	2
$130,000 - $139,999	**2**	-
$140,000 - $149,999	**5**	5
$150,000 - $159,999	**2**	6
$160,000 - $169,999	**1**	-
$170,000 - $179,999	**2**	1
$180,000 - $189,999	**2**	-
$190,000 - $199,999	**1**	1
$200,000 - $210,000	**3**	-
$210,000 - $219,999	**2**	2
$220,000 - $229,999	**-**	2
$250,000 - $259,999	**1**	2
$260,000 - $269,999	**-**	2
$270,000 - $279,999	**-**	1
$310,000 - $319,999	**1**	-
$340,000 - $349,999	**-**	1
$390,000 - $399,999	**1**	1
$640,000 - $649,999	**-**	1

Shareholder information

Shareholders

As at 31 December 2020 there were 2,691 shareholders holding 431,914,620 fully paid ordinary shares.

Share issues

During the year there were issues of shares to employees on the exercise of rights to part paid shares and US employee share options (exercised in accordance the Company's long-term incentive scheme as outlined in note 6.2). The amount received by the Company on exercise was $69,000.

In July 2020, the Company issued 107,978,028 shares pursuant to a 1:3 rights issue at $0.05 per ordinary share. The Company received $5,282,000 net of issue expenses.

There were no other issues of shares in 2020.

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 share register at 4 February 2021:

20 largest shareholders		Ordinary Shares
1.	East West Manufacturing LLC	41,069,097
2.	Wairahi Investments Limited	23,100,000
3.	Tea Custodians Ltd	21,241,069
4.	Ballynagarrick Investments Ltd	21,185,103
5.	ASB Nominees Ltd (Meta Capital Ltd)	19,031,899
6.	Hobson Wealth Custodians Ltd	16,456,824
7.	HSBC Nominees (New Zealand) Ltd	16,454,416
8.	Graham Trustees Ltd	16,092,744
9.	EWNZ Ltd	14,080,710
10.	FNZ Custodians Ltd	9,847,258
11.	New Zealand Depository Nominee Ltd	9,662,615
12.	Flynn No 2 Trustees Ltd	8,564,758
13.	BNP Paribas Nominees (NZ) Ltd	7,445,066
14.	Greg Allen	6,488,049
15.	Accident Compensation Corporation	6,000,000
16.	Leveraged Equities Finance Ltd	5,464,534
17.	JP Morgan Chase Bank NA NZ Branch	5,155,001
18.	BNP Paribas Nominees (NZ) Ltd	4,648,615
19.	Howard Duncan Milliner	3,536,561
20.	Lean Holdings Pty Ltd	3,338,025

Distribution of equity securities

Ordinary Shares			Shareholders		Fully paid	
Size of holdings (at 4 February 2021)			Number	%	Number	%
1	-	999	852	31.37	277,145	0.06
1,000	-	1,999	219	8.06	291,097	0.07
2,000	-	4,999	341	12.56	1,060,575	0.25
5,000	-	9,999	255	9.39	1,745,768	0.40
10,000	-	49,999	570	20.99	13,065,832	3.03
50,000	-	99,999	153	5.63	10,426,303	2.41
100,000	-	499,999	225	8.28	48,296,411	11.18
500,000	-	999,999	38	1.40	25,793,324	5.97
over		1,000,000	63	2.32	330,958,165	76.63
			2,716	100.00	431,914,620	100.00

2,574 (or 94.77%) shareholders, holding 373,922,315 shares (or 86.57%) reside in New Zealand.

Substantial product holders

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

Name	Number of shares[2]	Date of notice
Jarden Securities Ltd & Harbour Asset Management Ltd	57,935,694	17 December 2020
Wairahi Investments Ltd	22,908,241	5 October 2020
East West Manufacturing, LLC	55,149,807	30 July 2020

[2] 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.

Shareholder Enquires

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the directory on page 78. 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 and Management of Wellington Drive Technologies Limited are committed to acting with integrity and expect high standards of behaviour and accountability from all the Company's officers and staff.

Role of the Board

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

Compliance

The governance principles adopted by the Board are designed to meet best practice recommendations for listed companies to the extent that they are appropriate to the size and nature of Wellington's operations. The Board endorses the overall principles embodied in the NZX Corporate Governance Code 2019 (the NZX Code) and believes the Company's corporate governance principles, policies and practices are appropriately aligned with the NZX Code.

The Company is reporting against the recommendations in the NZX Code, by describing below the corporate governance policies and practices Wellington has in place and highlighting the small number of areas of the NZX Code where we have not fully followed the Code's recommendations.

Wellington takes a "continuous-improvement" approach to corporate governance. Our governance programme over the last year included the review of policies and Board and committee charters.

This statement is current to 26 February 2021 and has been approved by the Wellington Board of Directors.

Board and committee charters, codes and policies referred to in this section are available to view at www.wdtl.com/governance.

NZX Code

Principle 1 – Code of ethical behaviour

The Company is committed to transparency and fairness in dealing with all its stakeholders and to ensuring adherence to all applicable laws and regulations. The Company expects its directors, officers, and employees to maintain high standards of ethical conduct and expects employees to act legally, ethically and with integrity in a manner consistent with the policies and guiding principles that are in place. These include the following:

> "Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

- **Code of Business Conduct and Ethics for Wellington team members and directors:** Wellington team members are committed to being ethically and socially responsible and our business decisions should reflect our values, acting within the laws of the countries in which it operates. The code, which can be found at http://www.wdtl.com/governance, provides a guide to these general principles of conduct and ethics. It brings together all our policy principles and provides a working guide for directors and employees to ***do the right thing*** when making decisions in our daily activities, and to:
  - ✓ Act safely, ethically and responsibly
  - ✓ Act in Wellington's best interests always
  - ✓ Protect the confidentiality of Wellington's business information
  - ✓ Always comply with the principles in the Code, the legal and regulatory obligations in their country and the spirit of the law
  - ✓ Hold their colleagues accountable for behaving ethically and following the Code

- ✓ Not engage in any activity whether within or outside of the workplace that is likely to bring Wellington into disrepute
- ✓ Deal honestly with Wellington's people, customers, shareholders, suppliers and other stakeholders
- ✓ Ensure that they do not knowingly enter into transactions or make commitments on behalf of Wellington that the Company cannot or does not intend to fully honour
- ✓ Undertake their duties with care and diligence
- ✓ Ensure that any personal opinions Wellington people express are clearly identified as their own and are not represented to be the views of the Company
- ✓ Value individuals' differences and treat people with respect
- ✓ To the best of their ability, ensure that Wellington's records and documents, including financial reports, are true, correct and conform to Wellington's reporting standards and internal controls
- ✓ Not accept or offer bribes or improper inducements
- ✓ Speak up about unsafe or unethical behaviours

The Code includes a policy regarding a respectful workplace and diversity, requiring equal opportunity for all.

Wellington is committed to attracting, developing and advancing the best person for the role. Selection processes for recruitment and employee development are unbiased and based on merit. Wellington values diversity and has a workforce consisting of individuals with diverse skills, values, backgrounds, gender, ethnicity and experience. Any form of discrimination, bullying or harassment is not tolerated.

Wellington takes the Code seriously. It is the responsibility of all Wellington people globally to promptly bring suspected violations to the attention of the Company, for the benefit of all.

- **Rules for Trading in Wellington Securities:** The Rules for Trading in Wellington Securities, which can be found at http://www.wdtl.com/governance, require all staff and directors to seek approval in accordance with the rules before buying or selling any Wellington securities. The policy details “blackout periods” where trading is forbidden, as well as a process for authorisation at all other times.

The Company has an ongoing programme to maintain employee awareness and understanding of these ethical standards and policies.

Principle 2 – Board composition and performance

> “To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.”

The Wellington Board comprises directors with an appropriate range and mix of skills and experience; who have a proper understanding of, and competence to deal with, current and emerging issues of the business; and who can effectively review and challenge the performance of management and exercise judgment independent of management. The Board’s structure and governance arrangements are set out in the Wellington Board Charter which can be found at http://www.wdtl.com/governance.

The Wellington Constitution requires the Company to comply with the minimum Board composition requirements of the NZ Stock Exchange which are that there must be at least three directors, and at least two directors must be independent directors and two ordinarily resident in New Zealand. We assess director independence against the “disqualifying relationship” criteria in the NZX Listing Rules. The Board currently has five directors, all of whom are considered independent except for Greg Allen who is non-independent because of his roles (to 31 March 2021) as Chief Executive Officer and as a consultant to the Company (from 1 April 2021 to 31 December 2021). Until Greg Allen ceases to be the Chief Executive Officer, the Company does not comply with the NZX Code which recommends that all directors be non-executive directors.

Profiles of all directors and their dates of appointment are set out in the Directors section of this Annual Report on pages 22 to 24 and are available on the Company’s website.

Attendance at meetings held during 2020 was:

Directors' meetings	John McMahon	Gottfried Pausch	Keith Oliver	John Scott	Greg Allen	Lisbeth Jacobs
Meetings held whilst a director	17	17	17	17	2	2
Attendance	17	16	16	17	2	0

Audit & Risk Committee meetings	John McMahon	Keith Oliver	Gottfried Pausch	Lisbeth Jacobs
Meetings held whilst a director	2	2	2	1
Attendance	2	2	1	0

- Lisbeth Jacobs resigned from the Board on 28 February 2020

As the Board is small, the Company has not established a separate nomination committee as recommended under the NZX Corporate Governance Code, believing these matters are best dealt with by the full Board of Directors. Periodically the Board evaluates its performance, composition, size, diversity and mix of skills. The method of review is determined by the chairperson annually and may include interviews, questionnaires and/or external review. The Board is satisfied that it is operating well and that the performance processes we have used are both effective and suited to the Company.

When a decision is made to recruit a new director, the Board identifies candidates with a mix of capabilities and perspectives considered necessary for the Board to carry out its responsibilities effectively. The Board also considers the skills of the existing directors to ensure that the skills of the new director will complement and add to the effectiveness of decision making. Appropriate pre-appointment checks are made on the background and suitability of all directors. New Board members enter into a written agreement establishing the terms of their appointment. A director appointed by the Board must stand for election at the next annual meeting. Listing Rule 2.7.1 requires directors to stand for re-election on the later of three years and the third annual shareholders' meeting after their appointment. Retiring directors are eligible for re-election.

Directors undertake to attend appropriate education to remain current in how to best perform their duties as directors. Directors are encouraged to attend courses and maintain membership of relevant bodies, such as the Institute of Directors.

Directors receive information independently from management in relation to specific issues relevant to Wellington, the markets in which the Company operates and to NZX listed companies generally. All directors have access to management for any additional information they consider necessary for informed decision making.

The Company recognises our people are critical to our business. Wellington has a very small number of employees, a significant number of which are based outside of New Zealand, which makes it challenging for the Company to adopt any formal targets in relation to diversity as is recommended by the NZX Code. While we do not have any such formal targets, Wellington values and respects the contributions, ideas and experiences of people from all backgrounds and is proud to have a diverse company with staff from around the world and from many cultures. As stated, the Company has a diversity policy included in its Code of Business Conduct and Ethics, and is committed to attracting, developing and advancing the best person for the role. Recognising the small size of the Company, the Company's diversity policy does not include measurable objectives to be met, as recommended by the NZX Code. Attracting the best person for a role may involve a global search for a suitable candidate and that selection may add to our diversity. Wellington recognises diversity brings a range of ideas, skills and innovation to the Company, which is important to the achievement of our objectives. The Board considers that the Company could improve its diversity at the senior management and board level and is conscious of the benefits a diverse leadership team can provide to the business.

During 2021, the Company will continue to strive to ensure the best person for the role is identified in the recruitment process for all positions becoming available and will strive to ensure it continues to improve diversity in its workforce. It will ensure gender, race, sexual orientation, disability, age, religious or other bias are not present in hiring decisions. The Company aims to encourage development of its existing staff through global re-deployment and training.

Diversity by gender statistics

In accordance with NZX Listing Rule 3.8.1 the Company makes the following diversity disclosures:

	Male		Female		Total
31 December 2020	#	%	#	%	
Board	5	100%	-	-	5
Senior management team*	7	88%	1	12%	8
Other staff	60	73%	22	27%	82
Total Company	72	76%	23	24%	95

	Male		Female		Total
31 December 2019	#	%	#	%	
Board	4	80%	1	20%	5
Senior management team*	6	100%	-	-	6
Other staff	58	76%	18	24%	76
Total Company	68	78%	19	22%	87

*The senior management team comprises of the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO. The senior management team are "officers" for the purpose of the NZX Listing Rules.

Principle 3 – Board committees

"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."

The Board has established several committees to guide and assist them with overseeing certain aspects of corporate governance. These committees are the Audit and Risk Committee, the Technology and Innovation Committee and the Executive Appointment and Remuneration Committee. Each committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

Audit and Risk Committee

The Audit and Risk Committee operates under a charter approved by the Board and assists the Board in: taking reasonable steps to acquire and maintain up-to-date knowledge of enterprise risk management; 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, two of whom are independent and one of whom has a financial or accounting background.

The current members are John McMahon (Committee Chairman), Keith Oliver and Gottfried Pausch.

The Audit and Risk Committee charter can be found at http://www.wdtl.com/governance.

Executive Appointment and Remuneration Committee

The Executive Appointment and Remuneration Committee operates under a charter approved by the Board and assists the Board in; 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, where appropriate, obtains independent advice on remuneration policy and packages.

The current members are Keith Oliver (Committee Chairman) and Gottfried Pausch (Past Committee Chairman).

The Executive Appointment and Remuneration Committee charter can be found at http://www.wdtl.com/governance.

Technology and Innovation Committee

The Technology and Innovation Committee operates under a charter approved by the Board and assists the Board in overseeing and providing counsel on overall strategy, direction and effectiveness of technology and innovation activities.

The current members are John Scott (Committee Chairman), Gottfried Pausch and John McMahon.

The Technology and Innovation Committee charter can be found at http://www.wdtl.com/governance.

Other committees

From time-to-time the Board may establish a committee to assist in the management of a matter or project. In 2020 a Capital Planning Committee operated to oversee the strategic investment and funding requirements for the Company.

The Company has established protocols for dealing with a takeover should an offer be received.

Health and safety

Whilst not a committee of Board members, Wellington has a Health and Safety Committee that meets monthly and reports to the Board. The Company is strongly committed to maintaining a safe and healthy workplace and believes all accidents are preventable. 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.

The health and safety policy can be found at http://www.wdtl.com/governance.

Principle 4 – Reporting and disclosure

> "The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."

The Company is committed to ensuring integrity and timeliness of its financial reporting and in providing information to the market and shareholders.

Financial reporting

The Board has overall responsibility for ensuring the integrity of the Company's reporting to shareholders, including for financial statements that comply with generally accepted accounting practice. The Audit and Risk Committee assists the Board to fulfil its responsibilities in this area. The committee makes enquiries of management and the external auditors (including requiring management representations) so that the Company can be satisfied as to the validity and accuracy of all aspects of Wellington's financial reporting.

The CEO and CFO certify to the Board that: the annual report is true, and the statements therein are not materially misleading; and no matters in the annual report (as a result of subsequent events) would make any of the statements untrue or materially misleading.

Wellington strives to improve the clarity and readability of its financial statements, while continuing to comply with all the requirements of the financial reporting standards including the Companies Act 1993, the Financial Markets Conduct Act 2013, and the Listing Rules.

Continuous disclosure

The Company has a formal Group Market Disclosure Policy that can be found at http://www.wdtl.com/governance. The policy seeks to promote investor confidence by ensuring that dealing in its securities takes place in an efficient, competitive and informed market. The Company strives to ensure that all investors have equal and timely access to market sensitive information. The Company considers that evenly balanced disclosure (during good times and bad) is fundamental to building shareholder value and earning the trust of staff, customers, suppliers, communities and shareholders.

The Board reviews and approves material announcements and specifically considers with management at each Board meeting whether there are any issues which might require disclosure to the market under the NZX continuous disclosure requirements.

Trading in shares

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

Wellington has a detailed share trading policy, the Rules for Trading in Wellington Securities that can be found at http://www.wdtl.com/governance, which applies to all directors and employees. No director or employee may use confidential non-public 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 non-public price-sensitive information) is strictly prohibited.

Given the small size of the Company, 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 Chair of the Wellington Board or (where the Chair is unavailable) the Chair of the Board's Audit and Risk Committee, will approve or decline the application. The Company monitors trading and reports share movements to the Board at every meeting.

Information for investors

Wellington's investor website http://www.wdtl.com/news-and-information includes the Company's reports, investor communications, audio and video releases and the Policies and Charters referred to in this section. The Annual and Interim Reports are available in electronic and hard copy format.

The annual meeting is planned to be held on 26 May 2021. All shareholders are welcome to attend and ask questions. The external auditor, Deloitte will be in attendance to answer questions about the audit and their audit report. A notice of meeting will be sent to shareholders in April 2021.

Principle 5 – Remuneration

> "The remuneration of directors and executives should be transparent, fair and reasonable."

The Executive Appointment and Remuneration Committee is responsible for ensuring directors and executives receive the appropriate rewards to support Wellington in achieving its commercial and stakeholder goals. The Executive Appointment and Remuneration Committee has a formal charter. Its membership and role are set out under Principle 3 above.

Director remuneration

Directors' fees are currently set at a maximum of $400,000 per annum. This was approved by shareholders at the 2019 Annual Meeting. Directors' fees paid in the 2020 financial year amounted to $164,333, due to the small size of the Board, and the fact that Directors forwent part of their fees during the year in response to COVID-19. Full disclosure of director remuneration is set out on page 65. Gottfried Pausch received a consulting fee in 2020 of $36,000 for his interim Auckland based executive role with the Company. Greg Allen receives remuneration for his role as Chief Executive Officer until 31 March 2021 and will receive a consultancy fee for the period from 1 April 2021 to 31 December 2021. He did not receive director fees in 2020. His director fees will commence on 1 January 2022, upon expiry of his consultancy. Other than as disclosed here, no director is entitled to any other remuneration or retirement benefits from Wellington. Directors are entitled to be reimbursed for reasonable travel, accommodation and other expenses incurred by them in connection with their attendance at Board or shareholder meetings or otherwise in connection with Wellington business.

The Executive Appointment and Remuneration Committee conducts an annual review of directors' fees, to determine whether the level of fees paid to the Company's chairperson and other non-executive directors is aligned with other organisations of similar scale and scope. Any increases in fees paid to directors must be authorised by the Board and be within the above cap approved by shareholders.

Remuneration

Wellington's approach is to pay a base salary and a performance-based bonus that includes a short-term and a long-term incentive component. This ensures executive motivation is aligned with the goals of the Company in the short and long term.

Base salary

As stated, the Company recognises our people are critical to our business and its growth strategies. Wellington's remuneration strategy is to pay executives a remuneration that is fair and reasonable in a competitive market for the skills, knowledge and experience required by the Company. Salaries are determined for their current position in the market using relevant and up to date market benchmark data and an individual's performance and are reviewed annually. Many of our employees are based outside of New Zealand and remuneration varies by location in accordance with the local market. In 2020, as a result of COVID-19, the Company modified its remuneration plan with actions that included putting the annual review of salaries on hold, deferring payment of 2019 incentive bonus, negotiating meaningful salary reductions for all staff members and significantly reducing board fees.

Short-Term Incentive

Our Short-Term Incentive (STI) model is focused on delivering financial and business improvement performance goals, predicated on measurable outcomes, differentiating high performance, and rewarding delivery. The STI programme applies only to key management and other selected staff members. STI values are calculated as a percentage of base salary, ranging between 10% to 33% for eligible employees. Executive team STI payments are determined following a Board level review of the Company's and the individual's performance and may be paid out at between zero to 100% of an individual's STI target. It is possible for an executive to achieve 200% on financial metrics if targets are substantially overachieved.

Employee share purchase plans

Wellington has two Long Term Incentive (LTI) share purchase plans, a partly paid share scheme which has been operating since 2008 and the United States employee share option plan which has operated since 2010. Details of both plans and the partly paid share issues or options currently outstanding are on page 56. Both schemes involve the issue, once all LTI plan requirements have been met, of shares in Wellington to employees at a price of 20% to 30% premium to the market price of Wellington shares at the time of their initial issue to the Share Trustee (in the case of partly paid shares) or time of grant (in the case of options). This is also the market share price hurdle that must be met before the employees can take up their shares. Selected employees are offered shares or options, although options are not available to New Zealand based employees. The shares or options vest in either two or three years following their grant (unless extended by the Board) if the share price hurdle price has been met and must be exercised within a specified period after that date by paying the balance due for the part paid shares or options. Any rights to acquire shares that are not taken up lapse.

During FY2020, 960,940 rights to acquire shares were exercised under the Partly Paid Share Scheme and 268,647 options were exercised under the United States employee share option plan.

In 2021 the Company intends to review its long-term incentive plans to ensure that the Company continues to have plans that are fit for the purpose of retaining and attracting the right talent for the business.

CEO remuneration

The following table sets out the payments made to the CEO during FY2020.

Fixed remuneration*	$392,800
Short term incentive*	$-
Total remuneration	$392,800

*Fixed remuneration in 2020 is quoted after the 30% salary reduction implemented as part of the Company's COVID-19 temporary cost reduction plans. Due to the impact of COVID-19 on the business no short term incentive was earned in 2020

Short Term Incentive:

- The CEO is eligible for an annual STI target payment of 30% of base salary based on a combination of Board-approved financial and business improvement objectives being achieved, with 60% of that target from agreed economic objectives and 40% of that target from agreed management objectives. Overachievement on financial targets is possible up to a maximin of 200% if financial objectives are substantially overachieved.
- The Board of Directors must approve any STI payment and such payment will only be made if a minimum EBITDA threshold level is achieved.
- The CEO's STI payment for the FY2019 year was $121,224. Payment was delayed, with agreement, until no later than 31 March 2021, with interest accruing at 10% pa. Payment was made in January 2021.
- The STI targets for FY2020 were not achieved.

Long term incentive:

- No part paid shares were issued in the 2020 year and no part paid shares remain to be exercised. Further details of these part paid shares can be found on page 56.

Principle 6 – Risk management

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

The identification and effective management of the Company's risks are a priority of the Board.

As discussed previously, the Board has established an Audit and Risk Committee to assist the Board in oversight, monitoring and review of risk. Bi-annually there is a review of the entire risk landscape to establish a forward-looking perspective on business risks, both financial and non-financial, in both the internal and external environment. The committee provides a forum for discussion of risk, including the Board's appetite for risk, with the CEO and management. The CEO and senior management team are required to regularly identify the major risks affecting the business and to develop strategies to mitigate these risks. Significant risks are discussed at each Board meeting, or as required.

The Company maintains insurance policies that it considers adequate to meet the insurable risks of the Group. Exposure to any foreign exchange risk is managed in accordance with policies laid down by the directors.

The Health and Safety Committee meets monthly and reports to the Board on health, safety and wellbeing matters. Minutes of the Health and Safety Committee are a priority agenda item at all Board meetings and specific reviews are sought as required. The committee continuously reviews health and safety risks and systems used to identify and manage those risks, ensuring they are fit for purpose, are being effectively implemented, regularly reviewed and improved. The frequency of incidents has been low and no Accident Compensation claims involving the Company have been recorded for several years. The Board undertakes ongoing health and safety education and visits key operational sites on a regular schedule.

Principle 7 – Auditors

"The Board should ensure the quality and independence of the external audit process."

Oversight of Wellington's external audit arrangements is the responsibility of the Audit and Risk Committee.

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

Deloitte is the existing auditor of the Company and was automatically re-appointed by virtue of section 207T of the New Zealand Companies Act 1993.

During 2020 other services provided by Deloitte amounted to $26,000 relating to tax compliance services.

To ensure full and frank dialogue between the Audit and Risk Committee and the auditors, the auditor's senior representatives meet separately with the committee (without management present) at least twice a year, including immediately before finalisation and release of the Company's half-year and full-year financial results to the market.

Due to its size, the Company does not have an internal audit function as is recommended by the NZX Code. As discussed above, the CEO is accountable for all operational and compliance risks across the Company's operations and businesses. The CFO has management accountability for the effective implementation and improvement of internal systems and controls.

Representatives of the Company's external auditor, Deloitte are invited to attend the annual shareholders meeting where they are available to answer shareholders' questions relevant to the audit.

Principle 8 – Shareholder rights and relations

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

The Board's policy is to ensure (in an open and transparent manner) that shareholders are informed of all major and strategic developments affecting the Company.

We provide information about who we are, including our governance policies, on our website for investors to access at any time.

The Company releases all material information via the NZX in accordance with its continuous disclosure requirements. All major disclosures are also posted on the Company's website (http://www.wdtl.com/news-and-information) on a timely basis. Audio files of investor conference calls held with institutional and large investors are also available on the Company's website.

Shareholders can directly communicate with the Company via http://www.wdtl.com/contact-investors. Our CEO and CFO also respond directly to shareholder phone calls and emails.

Shareholders are encouraged to receive all shareholder communications by email. The Company provides a printed copy of its Interim and annual reports to shareholders who have elected to receive printed copies. Interim and annual reports are available on the Company's website in accordance with the requirements of the NZ Companies Act 1993.

The Company's share register is managed and maintained by Computershare. Shareholders can access their shareholding details or make enquiries about their current shareholding interests electronically.

Notices of annual meetings are made available as soon as possible and posted on the website of the Company usually more than one month prior to the meeting.

Shareholders are encouraged to attend, participate and vote at meetings or appoint a proxy on their behalf, or submit a postal vote, if they are unable to attend. Results of proxies and postal votes are summarised and disclosed at the meeting. Results of meetings are announced as soon as possible following the closure of the shareholder meeting.

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Wellington

Annual Report 2020

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