Annual Report 2022

AoFrio
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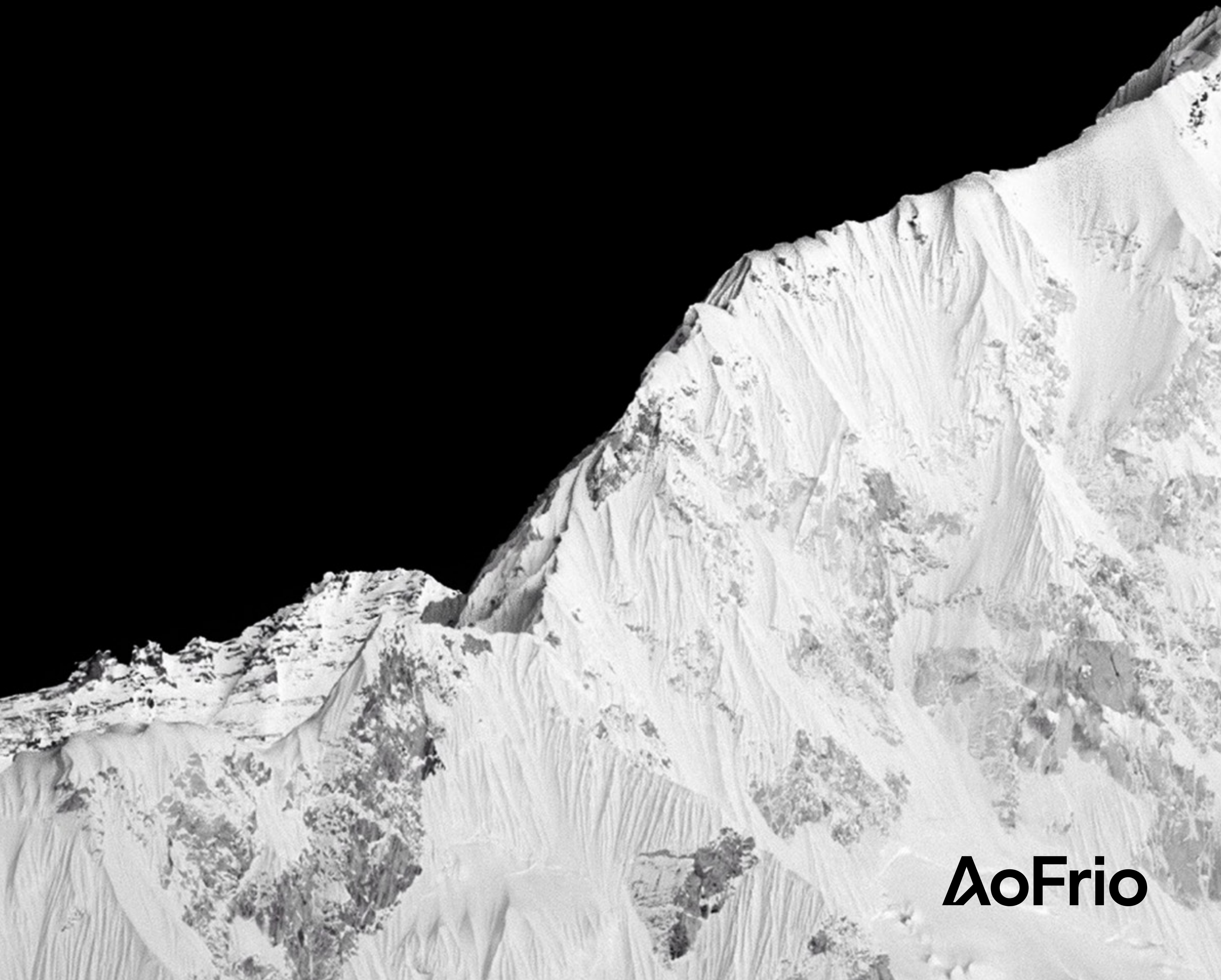
2022



Starting January as Wellington Drive and ending December as AoFrio, FY22 has been a year of establishing foundations for new verticals, while consolidating AoFrio as a technology business for the future.

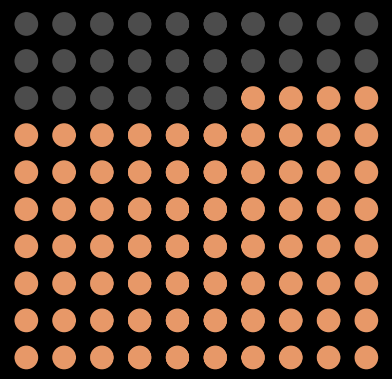
After achieving a record annual revenue, we're trending towards becoming a $100 million revenue company in 2023.

While our legacy is unashamedly in motors, we're now delivering our vision for IoT to the global bottle cooler market.

From here we've mapped out our next frontier across new markets, taking us into the ice cream, food service, beer, and medical markets.

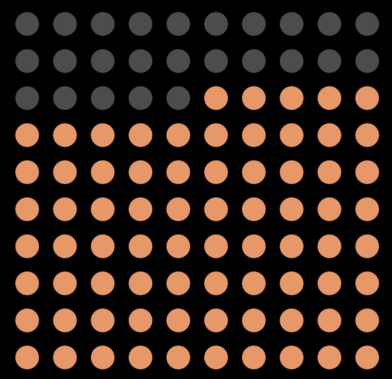
We're delivering cooler intelligence and a connected advantage to our customers.

Results at a glance



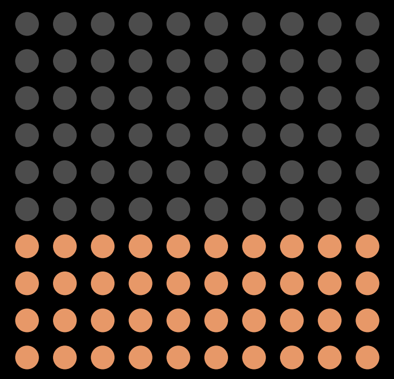
Revenue up 15.7% y-o-y to

$74.3 million



Employee Engagement Score

75%



Customer NPS

+40

beating benchmark of +25

EBITDA down 39% y-o-y to

$1.6 million

NPAT

$3.3 million

down $2.2 million

New roles to resource long term growth

19

Content

Chair and CEO letter

Gottfried Pausch
Chairman

Greg Balla
Chief Executive Officer

During the last year, AoFrio made significant progress against our company strategy and we are delighted to announce we achieved a record revenue year in FY22 as a result.

We started 2022 as Wellington Drive, and after a successful rebrand we're ending the year as AoFrio. More than a new visual brand, this change demonstrates our new outlook.

Our Kiwi heritage is a powerful differentiator for customers around the globe. We're held in high regard for unearthing powerful customer outcomes through the quality of both our software and hardware, plus the calibre of our people.

FY22 wasn't without its challenges, but our new brand and business strategy are delivering.

Financial performance

Revenue for the year ending 31 December 2022 was NZ$74.3 million, a 15.7% increase on FY21. Given the challenging conditions of FY22, we are particularly pleased with this result.

Without the supply chain challenges we experienced, revenue would have been higher.

At year-end, we achieved our largest December ever in terms of revenue, demonstrating the success of how we managed these challenges.

Although December's performance was very strong and factory production was at near capacity, revenue was lower than previously forecast. This was due to delays in customers signing off product specifications and the Company's inability to secure shipping space until early January for some orders.

EBITDA was $1.6 million. This fell short of initial forecast due to the lower revenue. NPAT was $3.3 million, compared to $5.4 million in FY21, with both years affected by tax credits to recognise tax losses.
During the year, our operating expenses increased to $19 million. This was a 27% increase on FY21, primarily due to funding additional headcount to fuel long-term growth and to a reduction in capitalisable development time.

Gross margin was stable year-on-year, at 27.7%, compared to 27.8% in FY21.This was a good result in light of supply chain issues during the year. Due to these disruptions, we spent an additional $1.2 million buying components on the spot market. This, along with higher shipping costs, could not always be passed on and constrained gross margin.

Operating cash flow for the year was a $4.4 million outflow, largely due to inventory build to support the high revenue in Q4 2022 and agreed customer payments terms. Cash on hand was $2.8 million, compared to $6.0 million at December 2021.

Our forecasts for 2023 show we have sufficient internally-generated funds to execute our business plans.

Business update

Supply chain challenges
Supply chain disruptions had a significant impact on FY22, particularly in the first half of the year.

AoFrio's engineering team had to move off new product development projects to redesign our existing products to allow us to swap to available components.

This was vital work to keep supplying as many customers as possible. But it reduced our ability to develop new products, something we are refocusing on in FY23.

For around six weeks in the middle of the year we could not manufacture any products, and it took us until the end of December to largely clear this backlog of orders.

As a result, revenue from motors declined by 3.0% compared to FY21, with $37.8 million coming from legacy ECR motors, as well as newer ECR 2 and ECF 2 motors.

We are still actively managing some supply issues, but our actions in H1 lessened the impact of these challenges in H2 and put us in a good position for FY23.

Investing to grow IoT
Our ecosystem of hardware, IoT applications, and Cloud services put our customers in control of their refrigeration and freezer fleets, delivering significant cost reductions, service, and sales efficiencies.

During the year, AoFrio's sales teams made good progress selling IoT solutions. In 2022, IoT product sales grew by 45% to 49% of 2022 revenue, compared to 39% of revenue in 2021.

In December, we made the first significant sales of our new Network Pro 'always-on' connected device and our AoFrio Monitor battery-operated device, targeted at the large retrofit market.

At the end of 2022, we also had 12 large retrofit trials underway with customers in North and South America, as well as Europe and Asia.

To enhance the capabilities of our IoT offering for the long term and spearhead our entry into new markets, we welcomed Genevieve Dawick as Vice President of Product and Rami Elbeltagi as Vice President of Engineering during the year.

Both are heavily involved in developing and delivering new products and solutions to keep us at the forefront of rapidly developing markets to grow profitability and increase recurring revenue.

Refocusing on new product development
For most of the year, the engineering team focused on existing products due to component shortages. In the

fourth quarter, they re-focused on product enhancement and development. AoFrio's customer range beyond bottle coolers is a focus for FY23.

We are initially focusing on the ice cream, food service, beer, and medical markets. During FY22, we launched, via a channel partner, our first food services offering and in December received our first order from a global ice cream company.

During the year, we also mapped out products for temperature maintenance in food preparation, service, and storage.

Our heritage is hardware, and in recent years we have made strides in IoT software in the bottle cooler market, but we are now diversifying beyond this market to underpin our bold growth plans.

Rebrand
In 2022, one of our biggest achievements was delivering our new brand. Off the back of comprehensive research, we developed AoFrio.

Since unveiling the new brand in early September, we have received positive feedback from customers and internal stakeholders.

The marketing team has updated marketing and sales assets across eight languages and will finish the website rebuild by the end of February 2023.

ESG action
By their very nature, our software and hardware actively supports our customers to reduce energy consumption. However, our commitment to environmental, social, and governance (ESG) considerations goes beyond this.

In 2019, we received a silver award from Ecovadis, putting us in the top 15% of similar organisations for our ESG systems and processes. However, in late 2022 we obtained a further independent view and are broadening our ESG commitment and action, as we see this as core for our ongoing business success.

This year we began developing our sustainability strategy and adopted a formal framework for ESG reporting. This will include setting targets and metrics with climate change reporting being the near-term priority.

We engaged EY to support our ESG journey and in 2022 completed a materiality study to determine the top ten ESG factors across our business.

Outlook

Looking ahead, we are forecasting annual revenue growth exceeding 30% in FY23, trending AoFrio towards becoming a NZ$100 million revenue company.

Our longer-term business plan also envisages annual revenue growth of 20% to 30% and we look forward to explaining this long-term plan in more detail at an investor strategy day in 2023.

Our 2023 business plan focuses on broadening sales of our current product range to new customers, plus selling recently developed and new products to existing and adjacent markets.

In the next year, we expect to progress towards expanding into ice cream, food service, beer, and medical markets while retaining a leading position in the new and retrofit bottle cooler markets.

We have hired talented people to add to our skilled team and continue to invest in our people to ensure we stay at the forefront of innovation in our markets. We have set in place lean and agile processes and have defined our next horizon of growth across new markets.

We remain cautious about our base demand, given elevated global macroeconomic risks from rising interest rates that could slow global growth and impact future revenue.

So, while we plan to increase our operating costs by $6 million and have capital expenditure of $2.5 million in 2023, we will take a measured approach to all additional investment until customers confirm demand.

EBITDA for FY23 is expected to be around $3.5 million, based on US$/NZ$ exchange rate of 0.6445.

Summary

2022 has been a year of establishing foundations for new verticals, while consolidating AoFrio as a technology business for the future.

We have navigated considerable supply chain disruptions which negatively impacted our top and bottom line, but we have also advanced our business strategy for the long-term.

Thank you to the whole AoFrio team who made this year possible and thank you to our shareholders for their ongoing commitment to the future of the company.

Gottfried Pausch
Chairman

Greg Balla
Chief Executive Officer

Our performance

Revenue

$74.3 million

EBITDA

$1.6 million

NPAT

$3.3 million

Given the challenging operating conditions of FY22, the business achieved solid financial performance and its highest NZD revenue to date.

Supply chain challenges constrained revenue during the first half of the year. During this time, we made deliberate decisions to position the business long-term. By year-end, the business achieved its largest December ever in terms of revenue and grew year-on-year revenue by 15.7%.

During Q2, we had a six-week period where we could not manufacture products due to component shortages. This restricted our ability to consistently supply products to certain customers and negatively impacted revenue.

EBITDA for the year was $1.6 million, falling short of initial forecasts. Although December's performance was very strong and factory production was at near capacity, revenue for the month was lower than expected, partly due to order and shipping delays.

Operating expenses were up compared to FY21, primarily from growing headcount to drive our business strategy.

Based on forecast cashflows, we are sufficiently funded to execute our current business plans and intend to fund growth internally.

Revenue, EBITDA and NPAT

Revenue grew to $74.3 million in FY22, up 15.7% on FY21.

EBITDA was $1.6 million, $1.0 million lower than FY21 due to higher operating expenses. Non-recurring items impacted EBITDA in FY21. Adjusted EBITDA in that year was $4.0 million, so the FY22 result is $2.4 million lower.

FY22 NPAT was $3.3 million, down $2.2 million. This includes a non-cash tax credit of $4.5 million to further recognise tax losses expected to be utilised over the next five years.

We experienced revenue growth across all regions, except South America due to increased competitive pressure and tariffs constraining our growth during the year.

However, supply chain challenges hampered growth in all regions.

IoT revenue grew by 45% year-on-year to $36.5 million and revenue from motors declined by 3.0% compared to FY21, to $37.8 million.

This shifting contribution between motors and IoT revenue is reflective of AoFrio's strategy to grow IoT revenue, but supply chain challenges within manufacturing also impacted it.

The business achieved its largest December month in terms of revenue on record. Revenue was $10.2 million, compared to $6.8 million the prior year and $5.9 million in January 2022.

Despite the record, December revenue was lower than previously forecast. As a result, EBITDA for the year fell short of what we had guided in November 2022, at $1.6 million.

Lower December revenue resulted from delays in customers signing off product specifications which impacted production for the month, and not being able to secure shipping space until early January for some orders. This revenue will be recognised in Q1 FY23.

Operating expenses

Team size grew by 19 to

105

Capitalisable product development time

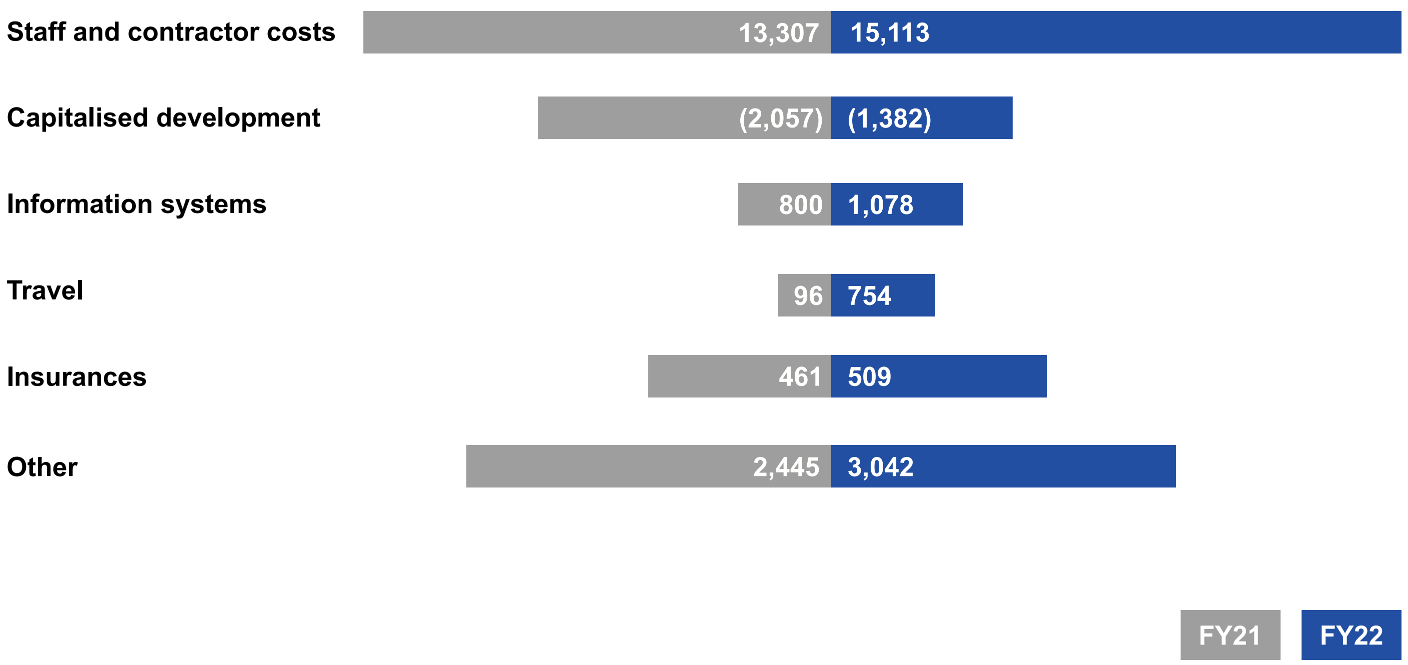
$1.4 million

Operating expenses were in line with our business plan. For the 12 months ending 31 December 2022, expenses were $19 million, 27% higher than FY21.

This increase in cost is predominately due to staffing as we expanded headcount to fuel growth and adjusted salaries of some existing roles to navigate global labour market pressures.

Most of our engineering time in FY22 was spent on component swap-out work at the expense of capitalisable new product development. This position progressively improved during the second half of the year, but our engineering team still spent less time on new product development than usual.

Expenses by type, comparing FY21 and FY22



Cashflow and capital on hand

Operating cash flow outflow

$4.4 million

Cash on hand as at 21 December

$2.8 million

Operating cash flow in FY22 was an outflow of $4.4 million, compared to an inflow of $4.0 million in FY21.

Cash on hand dropped from $6.0 million in December 21, to $2.8 million at the end of FY22. Over that period, net cash reduced from $4.0 million to net debt of $1.1 million.

Based on the cashflows we are forecasting, we are sufficiently funded to execute our current business plans and intend to fund growth internally.

Exchange rate

AoFrio has a strong natural hedge position between revenues and costs.

The Group's revenue is mainly priced and invoiced in US$'s, and all product costs are similarly US$ based. However, NZD reported revenue and gross margin are sensitive to the US$/NZ$ exchange rate, which fluctuated significantly over FY22.

Each 1c decrease in the NZD/USD exchange rate has an estimated $0.4m postive impact on EBITDA, although we do partially hedge our exposures.

Across the financial year, the weighted average US$/NZ$ exchange rate was $0.635 compared to $0.708 in FY21.

Faced with supply chain issues impacting componentry availability, shipping and customer orders, we're proud to have achieved our highest annual NZD revenue to date. Alongside this we've set the business up for long-term growth and are capable of funding growth internally.

Howard Milliner

Chief Financial Officer and Company Secretary

Gross margin

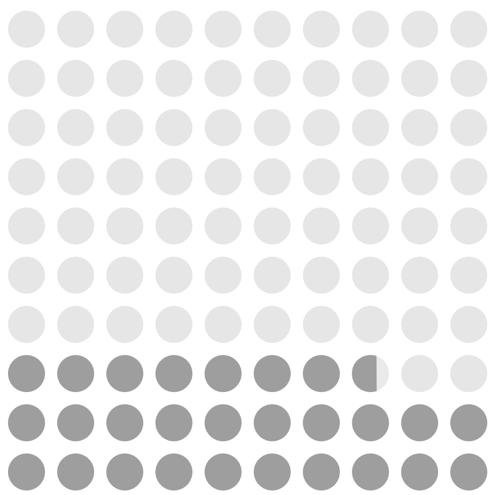
FY22 Gross margin

27.7%

Gross margin of 27.7% was stable year-on-year, compared to 27.8% in FY21, a good result in light of supply chain issues.

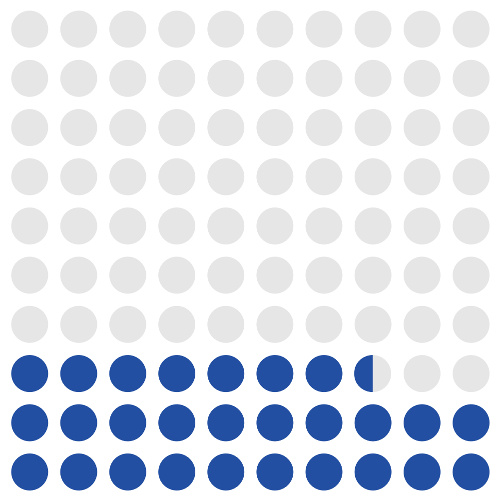
To navigate the supply chain disruption, we purchased some component parts on the spot market at a higher than our usual component cost. This, along with higher shipping costs, could not always be passed on to customers.

To manage these additional expenses, we increased prices on our AoFrio SCS for the first time since launching it in 2016. We also increased pricing on motors during 2022.



FY21

27.8%



FY22

27.7%

Creating value

Our business model

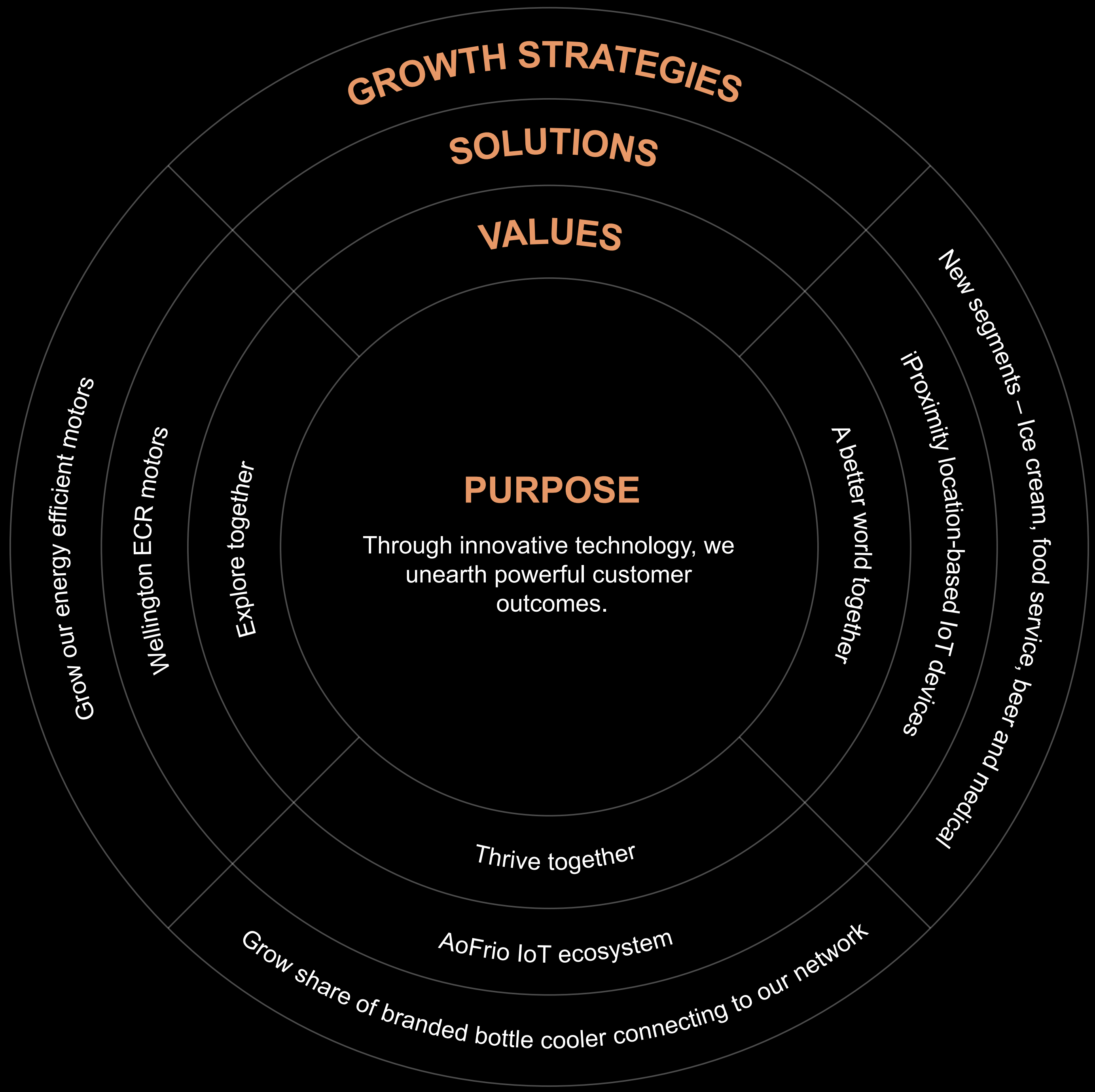
AoFrio is a global refrigeration technology business. We help ensure customers provide food and drinks that are fresh, safe, and at the right temperature at point of sale.

We supply advanced electronic IoT solutions that include cloud software to deliver actionable insights and advanced electronics to capture and communicate data to the cloud. We help refrigeration original equipment manufacturers (OEMs) and food, beverage, and retail companies across the globe reduce their costs, increase sales, and become more sustainable.

There are more than 500 million commercial refrigeration units in operation worldwide. Our ongoing success lies in our ability to unearth powerful business outcomes and create a better, more sustainable world together with our customers.

We are growing into a global hardware-enabled, full-service SaaS provider.

Our business strategy is already delivering, but there are significant growth opportunities in the future. We are expanding into new markets and verticals and are refocusing on R&D to launch new products.



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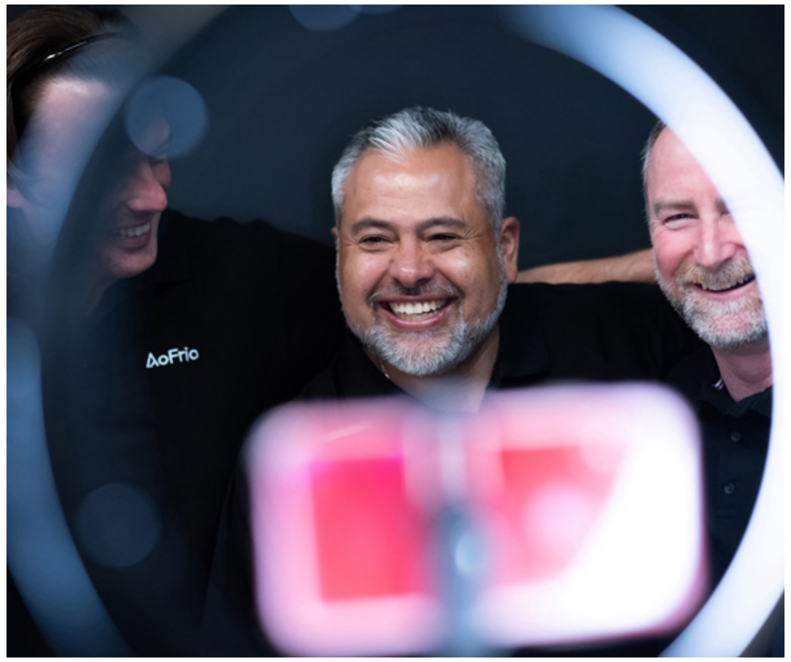
Our business starts with people, and we are unified behind a new strategy and vision. To fuel our growth, we’re upskilling our people, investing in new roles, inducting people efficiently and listening to them to ensure they are set up for success in their roles and as a team overall.

Angela Lewis

Chief People Officer



> At this nexus of our company, it was only right to create a new brand that showcases what we've evolved into. Our new brand and marketing strategy gives us the platform to have better, more informed conversations with our customers.

David Burden

Chief Customer Officer

Rebrand

As we evolve into an innovative hardware-enabled SaaS company, we identified that the old Wellington Drive brand didn't fit our new outlook.

As a result, in 2021 we invested in a comprehensive programme of research to consult with clients and shareholders, as well as people within our business.

Through this research we learned our Aotearoa heritage is a powerful global differentiator. We also learned we're held in high regard for unearthing powerful customer outcomes through both our software and hardware, and the calibre of our people.

To reflect this evolution, we developed a new brand that showcases the value we add to companies around the world. In the final quarter of the year, we rebranded and named ourselves AoFrio, with 'Ao' being Te Reo for world and 'Frio' meaning cold in Spanish.

Since unveiling the new brand in early September, we have received strong positive feedback from customers about this change and have experienced more than a two-fold increase in LinkedIn engagement.

Customer loyalty metric

During the first half of the year, in the midst of supply chain challenges, we calculated our net promotor score (NPS) with customers.

NPS is a widely used customer loyalty metric that registers the likelihood of customers recommending a company on a scale of -100 to +100. We achieved an industry-leading +40 score, versus a benchmark of +25 for B2B industrial companies.

This score was particularly pleasing considering the supply chain challenges the team contended with during the first half of the year.

Supply chain adaption

Through ongoing supply chain challenges during the first half of the financial year, our team worked hard to prioritise protecting customer relationships for the long term.

We invested in redesigns of existing products, facilitated variant product builds using alternative components, and updated firmware and software to support these alternatives.

Alongside componentry swap outs, we also increased the volume of components we hold at any one time and secured enough stock of key components to maximise manufacturing capability during the second half of the year.

During the year we purchased $2.0 million in inventory of long lead time components as well as spot buying, to protect supply as much as possible.

We are still actively managing supply issues for some materials, but the action we took in H1 lessened the impact of these challenges.

Since the first half of the year, freight costs have come down and freight availability has improved, and we anticipate these conditions will persist.

Another impact of supply chain disruptions is that some customers ended the year with higher inventory positions than usual due to over-ordering as they navigated global supply constraints. This extra inventory is one of the causes of lower than expected Q4 2022 revenue, but is expected to be consumed in Q1 of FY23.

As we head into 2023, our engineering team will move from component swap outs and refocus on innovation.

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2022 was the year for adaptation. Our engineering teams validated, tested and certified a number of alternative components and designs to give us more flexibility to meet customer demand in a constrained component environment.

In parallel, we worked with our manufacturing partners to increase production throughput and capacity which allowed us to significantly clear our customer order backlog by December.

Marc Tinsel

Executive Vice President, Operations

Our offering to customers

We are firmly focused on meeting the needs of our global customers. This translates for our global customers across six deliverables:

Asset management

Our IoT technology supports leading food and beverage manufacturers to better manage their refrigeration assets. Our solutions help improve maintenance efficiency and servicing, as well as reduce asset losses.

Through the development of our industry-leading AoFrio IoT ecosystem, we support customers to actively monitor their field equipment and reduce equipment loss. Our IoT technology allows ongoing passive data acquisition and has geolocation capability.

Manufacturers can monitor the performance of each cooler, meaning they can improve their cooler replacement cycle and make better use of their capital budget.

During FY22, our engineering team advanced our Network Pro offering. In the first quarter of FY23 we plan to roll out additional functionality that enables Network Pro to accurately determine its own location. This will automate customers' asset audits and dramatically reduce costs by reducing field staff requirements.

Technical performance

Our technology allows remote diagnostics as well as simplifying troubleshooting and collecting operational data. This helps our customers identify, and then rectify issues quickly, as well as improving preventive maintenance scheduling.

During the financial year, we continued developing firmware for our controllers that drive variable-speed compressors. This is particularly relevant for the European market. Through the control of both variable speed fans and compressors, we can dramatically improve a cooler's electrical efficiency, saving power consumption without compromising refrigeration performance.

Coca-Cola Europacific Partner – Australia

Coca-Cola Europacific Partner prepares, sells and distributes 88 beverage brands serving approximately 100,000 retail customers in Australia.

Together, Coca-Cola Europacific Partners Australia (CCEP) and AoFrio are creating an advanced ecosystem for connected commercial refrigeration, capturing real-time field data from their bottle coolers and translating this into actionable insights.

The business case for this pioneering technology is focused on reducing the cost of equipment repairs by prediagnosing the likely fault with artificial intelligence, which reduces the number of times a technician visits a site and generates preventative maintenance alerts to enable fridges to be repaired before they stop working.

Through the RFP process, CCEP searched for a partner to supply a fully integrated hardware and analytics system (one-stop-shop) with excellent customer service.

Delivering refrigeration technology that could endure Australia's extreme weather conditions was also an essential factor.

After completing unit trials, CCEP is now rolling out AoFrio's comprehensive ecosystem of hardware, and IoT solutions, which boasts the most extensive commercial implementation of Network Pro across CCEP's many tens of thousands of branded bottle coolers in Australia.

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We are the leaders in IoT for refrigeration, delivering our customers valuable insights using sustainable, transformative technologies.

We already have 1.5 million assets under management, and know there are millions more coolers, new and existing, waiting to be connected every year.

Genevieve Dawick

Vice President, Product

We also made progress in developing the SCS 800, which will be our first controller with in-built cellular capability. This will enable the controller to send data to the cloud in real-time without relying on any other products.

Commercial performance

Commercial refrigeration and coolers are a significant capital expense, so it is crucial this investment delivers the maximum return.

By implementing our AoFrio IoT ecosystem, our customers collect a wide range of business intelligence.

We maximise equipment ROI by understanding activity at each point of sale and identifying when coolers are turning over less than optimal capacity. We identify assets that aren’t paying for themselves and right-size them, as well as upsize equipment to capture unmet demand and increase revenue.

Operation management

Our AoFrio IoT ecosystem provides customers with critical insights into the field operation of their commercial refrigeration and cooler units. This helps them improve sustainability, identify case contamination, and reduce the risk of undesirable retailer behaviour.

Our AoFrio SCS is a sophisticated smart controller that allows our customers to understand real energy usage across its fleet in their customers’ stores. Clients can be alerted to potential product quality or Hazard Analysis and Critical Control Point (HACCP) issues and better ensure their products are sold within the optimal temperature range.

This is an area of focus for us in FY23 and we have mapped out several opportunities, including food safety. We are focused on how technology can automatically monitor and ensure food sold at restaurants and other retail establishments maintains the correct temperature during preparation, service, and storage.

Consumer engagement

Our software solutions enable customers to engage with consumers in new and innovative ways, increasing sales and building brand loyalty. Via our ‘always-on’ technology, we help customers control their brand

Coca-Cola Andina – Argentina

Andina Argentina’s goals was to reduce the loss of coolers, deliver improved preventive maintenance, and get commercial insights across its network.
After trialling AoFrio’s ecosystem of SCS controllers, Monitors, and IoT ecosystem, including mobile cooler fleet management software, Andina Argentina is now rolling out the technology across its network.

Based on the success of the one-year trial, Andina Argentina can measure a potential 10% decrease of lost equipment. In addition, they can measure a 25% decrease in customer centre calls, which reduces response times for repairs by a full day and means their coolers can be back selling cold drinks to consumers more quickly.

experience, offer personalised promotions, and digitally interact with individualised consumers to influence purchasing decisions.

Customers can use our interactive ScreenSmarts solution to integrate customised, interactive digital signage into food and beverage coolers.

Alongside our existing solutions, we have now defined our new planogram product. A planogram is an optimised map of how products should be laid out in a cooler or on a shelf to maximise sales. Our new product plans to digitise the planogram, solving the delivery problem and allowing unique planogram designs for each store.

Customer engagement

Working in partnership with global food and beverage manufacturers, we continue to develop leading solutions that provide our customers with a competitive edge to gain retail floor space in an intensely competitive market.

Our AoFrio IoT ecosystem easily integrates with different platforms, meaning we can place a world of data at the fingertips of sales teams, including detailed product information and energy efficiency.

Planograms, specials, and new programmes can be easily communicated with digital, on-demand technology.

Central America Bottling Corporation

Central America Bottling Corporation (CBC), with the largest beverage portfolio in the region, wanted to improve their cooler asset traceability and stock management.

CBC tested three connectivity solutions, looking for a system that could track physical locations of assets, identify equipment failures and improve profits.

After thorough testing, CBC selected AoFrio's cutting-edge ecosystem of hardware, IoT applications, and Cloud services to put them in control of their refrigeration and freezer fleets.

One of the appeals of AoFrio is a low effort required to capture data. The ecosystem is designed to piggyback off CBC's staff visiting point of sale. It collects data via Bluetooth and by the end of the year will capture information from 120,000 connected coolers across the region.

CBC has achieved 96% of the location and data collection of the AoFrio Connected fleet. AoFrio's ecosystem has also improved CBC's asset traceability to deliver savings. Prior to working with AoFrio, CBC lost on average 2.5% of its coolers annually. Now that figure has dropped and has reduced as low as 1% in some territories.

Our people

Total team size by the end of FY23

145

Offices around the world

4

Distributors globally

3

Our core values

Alongside our rebrand, in 2022 we launched our new values as a business.

Explore together

Enthusiastically collaborate to learn new things, be curious and push the limits.

Thrive together

We each succeed when we all succeed.

A better world together

Everything we do, we do passionately to create a future we can be proud of for people and the planet.

To power these values and the business strategy that sits alongside them, we're focused on investing in the right people and ensuring we set them up to succeed.

We added 19 new roles to the team in FY22, which were evenly split across the business. We have reviewed our salary bands to ensure we are well-placed to hire and retain key staff in the current environment.

We also launched a series of initiatives to better support and engage our people. These include:

- New recognition program to ensure we're rewarding people who demonstrate our values.
- New leadership development program to train our emerging leaders.
- A senior leadership forum to engage leaders in the business that aren't executives and ensure we are consulting and informing them appropriately.
- An employment assistant programme (EAP), so team members can access confidential well-being support.
- Developing our diversity and inclusion strategy, which will roll out in 2023.

Our next area of focus is making sure that, amidst growth, our onboarding processes provide direction and bring the best out of new hires across the globe.

Real time engagement survey

In March 2022 we launched a real-time engagement survey to provide live insights about how engaged the team is. Engagement correlates to every business' financial performance, so it's important we understand if we have the right culture to fuel growth.

The survey enables us to get feedback from the team across the globe, as well as incorporate initiatives to improve culture and set people up for success in their roles.

We ran the survey again in November 2022 and achieved an average engagement of 75%, compared to 68% in March that year. This is a significant endorsement of AoFrio's people-focused workstreams.

Growth strategies

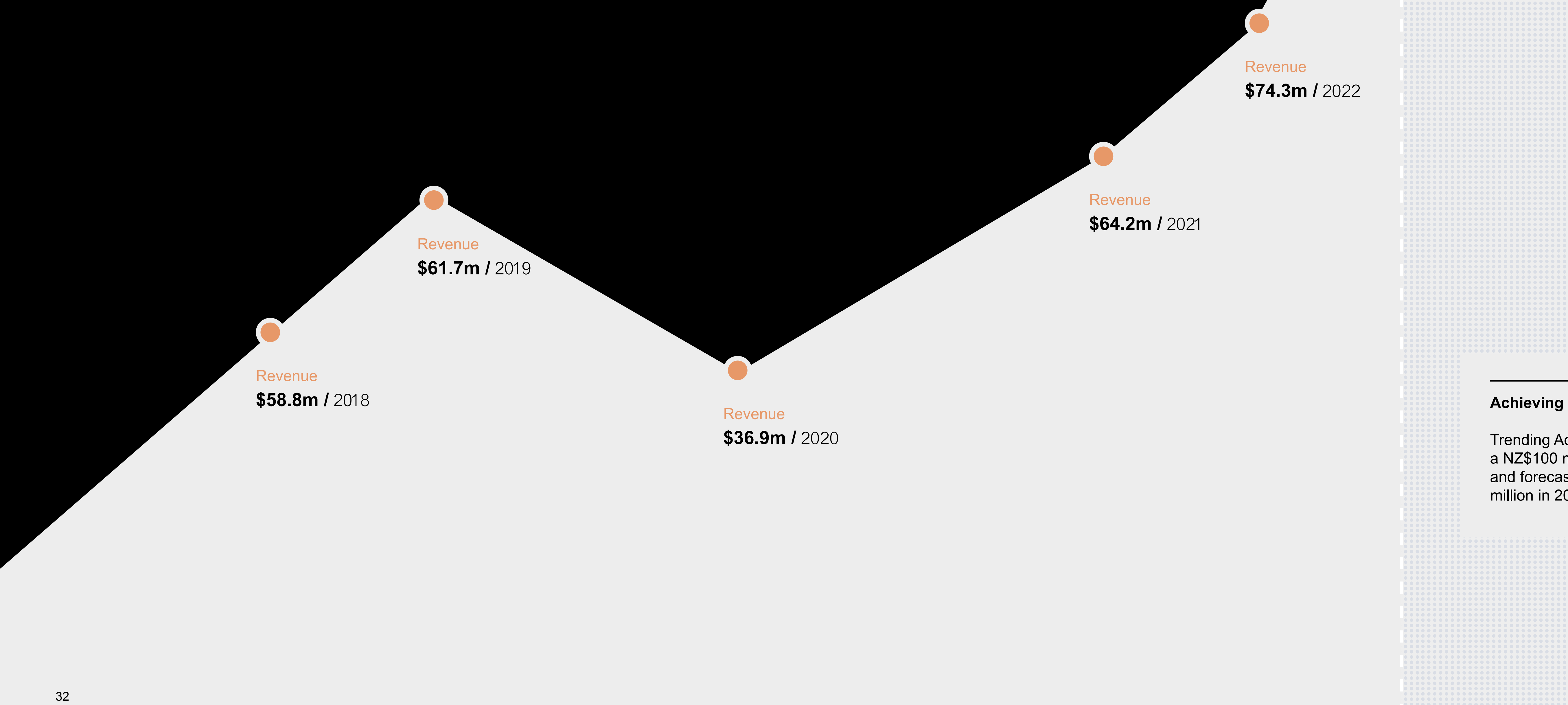
2023 Strategy

We are forecasting annual revenue growth exceeding 30% in FY23, trending AoFrio towards becoming a NZ$100 million revenue company.

Our 2023 business plan leverages our current product range (AoFrio SCS, ECR motors) to new customers, as well as recently developed products (Network Pro and AoFrio Monitor) and new products under development for existing and adjacent markets (bottle coolers, ice cream, food service, beer, and medical).

To achieve this growth, we're investing in new product development and adding specialist skilled people. During 2023 we plan to increase headcount to 145, including five roles within product and design, nine new roles within the engineering team, and adding roles to customer teams in every region.

As a result, operating costs will increase by $6 million, and the 2023 budget also includes capital expenditure of $2.5 million. All investments will be funded out of operating cash flows and we forecast EBITDA for FY23 will be around $3.5 million.



Achieving revenue growth

Trending AoFrio towards becoming a NZ$100 million revenue company and forecast EBITDA of around $3.5 million in 2023.

> In FY22 28% of engineering time was spent on research and development. To push us into new markets and verticals we're allocating 70% of engineering time to R&D during FY23. This will allow us to continuously work on new and innovative solutions throughout the year.

Rami Elbeltagi

Vice President, Engineering

New product development, verticals, and markets

During FY22, AoFrio's R&D teams were required to focus on designing componentry swap outs to enable manufacturing to continue amidst supply chain component challenges. Late in H2, we were able to increase the time allocated to R&D and advance critical solutions to extend our customer range beyond bottle coolers.

In December, we processed our first order from a global ice cream company for a modified AoFrio Monitor suited to freezers. This is a unique solution that addresses a critical issue in the frozen products industry, where a freezer's inability to maintain its temperature can result in thousands of dollars in product loss.

The real-time monitoring of product temperature is critical to maintaining a profitable frozen product business, and our AoFrio Monitor is the first of its kind.

In addition to this, we are also extending our services to the draft beer business by developing a solution for beer 'ice-banks'.

This solution is widely used in venues of all sizes in LatAm and Europe. It maintains beer at the correct service temperature while recording served volume, carbonation, and sales statistics. This helps global brands to maintain profitable outlets and the first trial deployment is with a global brand in Mexico.

We also focus on temperature maintenance in food preparation, service and storage. Food safety is more important than ever, and in 2022 we mapped our solution to monitor temperature across both hot and cold appliances, providing detailed logging for local food authority compliance monitoring.

During FY22, we also advanced a modern and stylish web-based interface for key customer applications, with the first release planned for 2023.

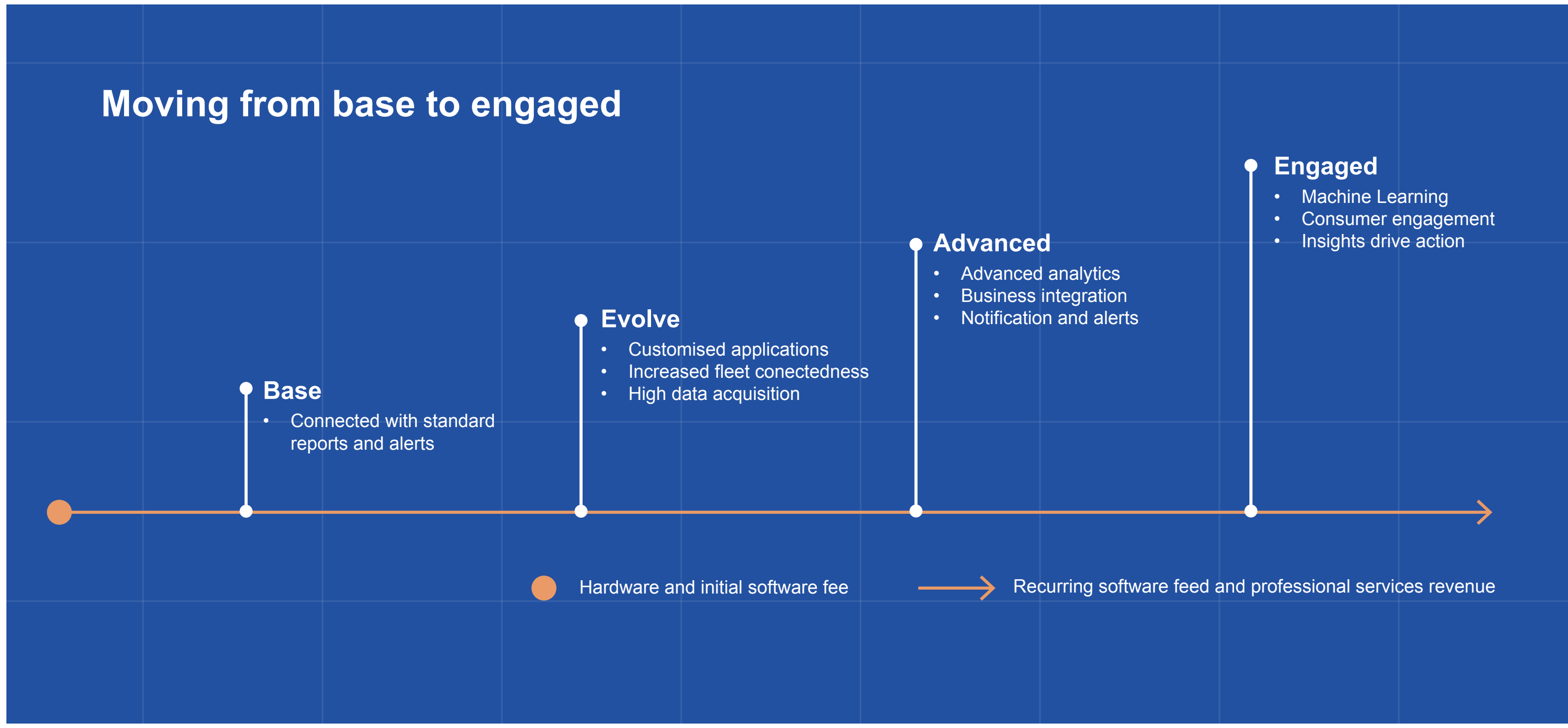
IoT growth plans

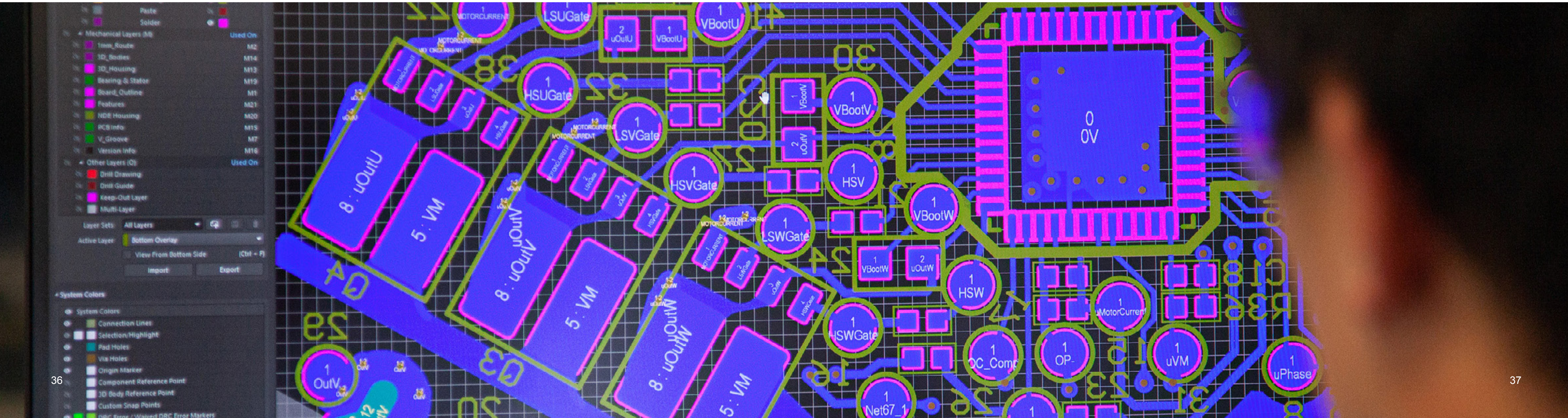
We're focused on moving all customers from base customers through to engaged customers. This moves them from receiving standard reports to leveraging our consumer engagement, Machine Learning, and AI solutions as we build a portfolio of third-party solutions that connect via APIs.

Moving customers up these levels of engagement is expected to translate into additional recurring software and professional services fees. IoT product sales grew by 45% to make up 49% of 2022 revenue, compared to 39% in 2021.

Alongside moving customers up the maturity ladder to generate more revenue from software sales, we also focused on capturing the retrofit cooler market and increasing the number of refrigeration units connected to our cloud platform.

This is important as it grows our recurring software revenue, which is our high margin business. At the end of 2022 we had 12 large retrofit trials underway with customers in North and South America, as well as Europe and Asia.





"Utilising our solutions, spanning IoT and consumer engagement services to refrigeration fans and motors; our customers have already prevented nearly 13 million CO_2 emissions.

Looking ahead we're focused on helping customers unlock further carbon savings, and expanding our sustainability efforts beyond our products to every aspect of our business.

Danielle Scott

Program Manager, Sustainability

Our sustainable future

Environmental, Social and Governance (ESG) factors are critical to the long-term sustainability and success of organisations.

It ranks as one of the highest factors of importance in our internal engagement survey, showing our team are committed to AoFrio's social and environmental responsibilities.

Whilst our sustainability action is driven by our internal team, we are also working with industry experts to ensure we build a leading, sustainable organisation that our team, customers, and shareholders are proud to be part of.

In 2022 we engaged an international professional services firm, EY, to conduct a materiality assessment.

This assessment identified the relative importance of specific ESG issues. It is part of a broader piece of work to develop our sustainability strategy and adopt a formal framework for ESG reporting.

EY's assessment determined our top ten material factors for ESG are:

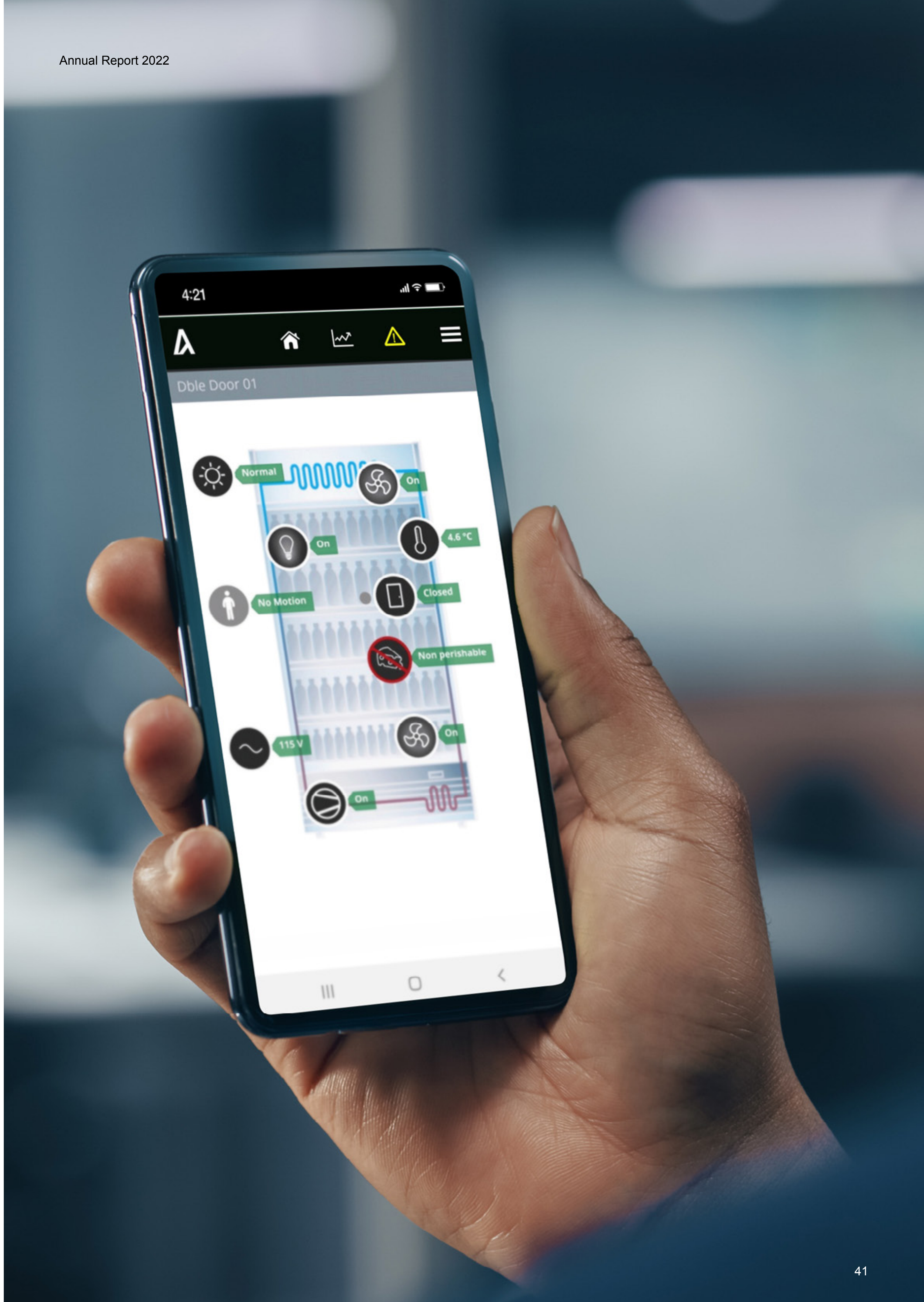
Pillar	Topic	Definition
Our product	Product quality, design and innovation	Providing benefit to customers, society and the environment by offering high quality products and services that use innovation and design to generate positive outcomes.
	Waste and circularity	Operating in a circular economy by considering the full lifecycle of products, including waste generated throughout the supply chain, packaging, and end-of-life disposal.
	Customer privacy and data security	Maintaining robust data protection systems, policies and procedures to ensure the privacy and security of customer data.
Our people	Health and safety	Protecting employees' physical and psychosocial health and safety in the workplace, by creating a culture that prioritises our people and the most significant health and safety risks, and by maintaining appropriate systems, policies and procedures.
	Diversity and inclusion	Actively seeking diversity of thought, culture, and background in all parts of the business and taking steps to ensure these diverse voices are heard and respected by supporting cultural awareness and appreciation.
	Engagement and wellbeing	Fostering a strong, healthy workplace culture where employees feel respected, supported, and challenged, including providing learning and development opportunities.
	Board and SLT composition	Creating a Board and Senior Leadership Team with a diverse range of backgrounds and viewpoints, sufficient independence and the skillsets to lead AoFrio in the right direction.

Pillar	Topic	Definition
Our supply chain and operations	Modern slavery and labour practices	Working with manufacturers that provide positive and safe environments for their employees.
	Sustainable sourcing of materials	Ensuring the materials used in the supply chain are obtained responsibly and sustainably, with consideration of the environment, people and communities.
	GHG emissions (Scope 1, 2 and 3)	Minimising greenhouse gas emissions across the entirety of our value chain, including manufacturing and shipping of products, to play our part in climate action and in meeting national and global emissions reduction targets.

At the beginning of 2023 we received a draft assessment of how our existing disclosures and management practices compare to the NZ CS 1 standard and TCFD Recommendations and where there may be gaps for improvement.

Whilst we already have programs of work underway for many of these topics, the recommendations of this NZ CS/TCFD gap analysis will inform the action we take and the ESG targets we set in 2023.

We expect to update investors on these targets at our FY23 interim results update, if not before.



Directors

Gottfried Pausch

Independent Chairman

After almost 10 years on the AoFrio Board, Gottfried's skills in global business development and strategy formation have helped underpin AoFrio's long-term growth strategy.

Gottfried has had a long-running career in engineering, infrastructure, and technology previously with Siemens, Actronic Technologies, AuCom Electronics, Invert Robotics and The Icehouse.

Alongside his role at AoFrio, Gottfried is also the Managing Director of Blackhawk.io, independent director at McKay and Ward Chandler and is a member of the Ministry of Business, Innovation and Employment Initiative - Science for Technological Innovation, National Science Challenge Board.

John McMahon

Independent Director

John has more than 30 years' experience in the Australasian equity markets, predominantly as an equity analyst covering the telecommunications, media, gaming, transport, and industrials sectors.

John's previous roles include Head of Research and Head of Equities for ABN AMRO NZ and Managing Director of ASB Securities. John is a director and Chair of Solution Dynamics Ltd (SDL), is director and Chair of Vital Ltd (VTL) and was a director of NZX Ltd (NZX) until 31 December 2021.

John Scott

Independent Director

John has been an AoFrio board member since 2019. His in-depth knowledge of IoT and global supply chains has seen him play a pivotal role in recalibrating the business into a hardware-enabled, SaaS company.

Alongside his role on the AoFrio Board, John is the CEO of Invenco Group, a global provider of self-service payment solutions. John has previously held positions at Navico, Number 8 Workshop, Brunswick Corporation, Navman Technology NZ, and Volex.

Keith Oliver

Independent Director

Keith is also an Independent Director at Rakon Limited, Chairman of Blackhawk.io, and a director at VWork Limited and Alto Capital.

Keith's previous roles include Executive Chairman at high tech company Compac Sorting Ltd and independent Director of the science led Crown Research Institute ESR.

Greg Allen

Director

Greg is the former CEO of AoFrio, a position he held for nine years. He has worked around the world leading business development, supply chain, and tech manufacturing for more than 30 years. Greg resides in Vancouver, Canada and is currently a Partner for Chrysalix Venture Capital, the Board Chair of HaiLa, a board observer for Liminal, and is a member of the Economic Advisory Committee for the City of Richmond, British Columbia.

Executive management

Greg Balla

Chief Executive Officer

Greg was appointed CEO of AoFrio in May 2021. He brought extensive experience leading sales and marketing, procurement, supply chain, manufacturing, process engineering, IT, and HR teams across his multi-decade career.

Prior to AoFrio, he spent eight years at Orion Health, where he started as Executive Vice President Clinical Workflow and Business Transformation, and spent four years as Chief Operating Officer.

Greg, along with the whole AoFrio team, is wholly committed to growing AoFrio and delivering clear customer insights, sustainable transformative technologies, and a connected advantage for customers around the world.

Howard Milliner

Chief Financial Officer and Company Secretary

After more than ten years at AoFrio, Howard has been instrumental in driving the organisation's strategy to become a hardware-enabled, SaaS company. He is also responsible for all financial and administrative operations across the business and brings a wealth of experience from previous roles.

Prior to joining AoFrio, Howard spent 14 years working as the CFO and then CEO of NZ-listed engineering business, Mercer Group (now MHM Automation).

Laura Bocock

Vice President, Transformation

Since joining in November 2021 as Transformation Lead, Laura has worked on re-inventing processes at AoFrio through leading her diverse portfolio of activities.

In addition to her role at AoFrio, Laura is a Business Consultant at Bocock Solutions. Prior to joining AoFrio, Laura was Planning and Intelligence Manager, COVID Response Unit at Auckland Regional Public Health Service.

Angela Lewis

Chief People Officer

Angela has led AoFrio's people-focused initiatives since January 2022. Her focus is on developing a vibrant company culture with modern thinking and ways of working.

Prior to joining AoFrio, Angela was the Head of HR consulting at Coca-Cola Amatil (NZ) Ltd. She also has significant people leadership experience from her work with Amazon, Orion Health, and Walt Disney.

David Burden

Chief Customer Officer

As Chief Customer Officer, David is responsible for ensuring AoFrio's future is focused on unearthing powerful business outcomes to create a better world with customers.

David has more than 30 years' experience leading start-ups and technology businesses. Notably, he founded and led what became Australia's largest and best-recognised interactive and mobile services company, Legion Interactive.

In 2013, David co-founded IoT company iProximity, with a focus on proximity marketing and digital information services, which was acquired by AoFrio in 2018.

Marc Tinsel

Executive Vice President, Operations

Marc started at AoFrio as a Programme Manager for sustaining engineering in 2013. As Executive Vice President, Operations. Marc is responsible for AoFrio's day-to-day leadership, supply chain, and operations, as well as delivery of all hardware, software, and development programs.

Prior to joining AoFrio, Marc worked as a project manager for Electrix managing multiple projects, budgets, and multidisciplinary teams.

Rami Elbeltagi

Vice President, Engineering

As the Vice President, Engineering, Rami is responsible for leading the engineering team. His role focuses on developing products and solutions to keep AoFrio delivering clear customer insights, sustainable transformative technologies, and a connected advantage.

Rami joined AoFrio from Fisher & Paykel Appliances, where he most recently held the role of Group Chief Engineer. Rami's leadership skills, product design, and agile innovation experience play a key role in accelerating the development of AoFrio's product offering.

Genevieve Dawick

Vice President, Product

With more than 20 years' experience in developing, implementing, and commercialising solutions in global complex environments, Genevieve brings with her a broad range of complementary commercial, product strategy, and process improvement skills.

Genevieve is also a trust board member for Wāhine Connect, a not-for-profit mentoring service for women working in the health sector. Most recently she held process improvement and product leadership roles with Te Toka Tumai (Auckland District Health Board) and Orion Health.

Danielle Scott

Program Manager, Sustainability

Danielle has been a part of the AoFrio team since April 2022. Her focus has been on supporting the AoFrio team with executive programs and strategic initiatives. This includes the sustainability and ESG program for AoFrio.

Prior to starting at AoFrio, Danielle most recently held roles with technology companies like Tesla and Workday managing multiple projects and implementing new strategic processes.

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

	Note	2022 $000s	2021 $000s
Revenue	2.2	**74,324**	64,218
Cost of sales		**(53,734)**	(46,345)
Gross profit		**20,590**	17,873
Other income	2.3	**69**	128
Operating expenses	2.4	**(19,114)**	(15,052)
Gain / (loss) on remeasurement of contingent consideration	6.1b	**68**	(323)
Earnings before interest, taxation, depreciation, amortisation & impairment		**1,613**	2,626
Depreciation	3.2	**(559)**	(578)
Amortisation	3.3	**(1,887)**	(2,015)
Impairment	3.3	**-**	(393)
Loss before interest & taxation		**(833)**	(360)
Finance income	4.2	**64**	11
Finance expenses	4.2	**(386)**	(207)
Loss before income tax		**(1,155)**	(556)
Income tax credit	2.5a	**4,415**	5,981
Profit for the year		**3,260**	5,425
Other comprehensive income: Items that may be reclassified subsequently to the profit or loss:			
Exchange differences on translation of foreign operations	4.5b	**115**	117
Other comprehensive income for the year		**115**	117
Total comprehensive income for the year		**3,375**	5,542
Profit for the year attributable to the Owners of the Company		**3,260**	5,425
Total comprehensive income attributable to the Owners of the Company		**3,375**	5,542
Basic earnings per share – cents	2.6	0.75	1.26
Diluted earnings per share – cents	2.6	0.73	1.23

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

2022	Note	Contributed equity $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance on 1 January 2022		**135,555**	**(111,467)**	**(3,800)**	**20,288**
Comprehensive income					
Profit for year		**-**	**3,260**	**-**	**3,260**
Other comprehensive income					
Exchange differences on translation of foreign operations	4.5b	**-**	**-**	**115**	**115**
Total comprehensive income		**-**	**3,260**	**115**	**3,375**
Contributions of equity, net of costs	4.3	**23**	**-**	**-**	**23**
Share option compensation expensed	4.5a	**-**	**-**	**95**	**95**
Balance on 31 December 2022		**135,578**	**(108,207)**	**(3,590)**	**23,781**

2021	Note	Contributed equity $000s	Accumulated losses $000s	Other reserves $000s	Total equity $000s
Balance on 1 January 2021		135,555	(116,892)	(3,948)	14,715
Comprehensive income					
Profit for the year		-	5,425	-	5,425
Other comprehensive income					
Exchange differences on translation of foreign operations	4.5b	-	-	117	117
Total comprehensive income		-	5,425	117	5,542
Share option compensation expensed	4.5a	-	-	31	31
Balance on 31 December 2021		135,555	(111,467)	(3,800)	20,288

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

Consolidated Statement of Financial Position

as at 31 December 2022

	Note	**2022 $000s**	2021 $000s
Current Assets			
Cash and cash equivalents	3.1a	**2,839**	5,953
Trade and other receivables	3.1b	**26,676**	17,847
Derivative financial instruments	6.4	**140**	-
Inventories	3.1c	**8,877**	4,600
Total current assets		**38,532**	28,400
Non-Current Assets			
Property, plant and equipment	3.2	**1,156**	1,724
Deferred tax asset	2.5b	**10,538**	6,051
Intangible assets	3.3	**12,907**	12,619
Total non-current assets		**24,601**	20,394
Total assets		**63,133**	48,794
Current Liabilities			
Trade and other payables	3.1d	**25,095**	19,167
Contract liability	2.2	**2,008**	1,431
Provisions	3.1e	**177**	205
Derivative financial instruments	6.4	**-**	21
Borrowings	4.1	**3,452**	731
Total current liabilities		**30,732**	21,555
Non-Current Liabilities			
Borrowings	4.1	**466**	1,266
Contract liability	2.2	**8,154**	5,362
Contingent consideration	6.1b	**-**	323
Total non-current liabilities		**8,620**	6,951
Total liabilities		**39,352**	28,506
Net assets		**23,781**	20,288

Consolidated Statement of Financial Position - continued

as at 31 December 2022

	Note	**2022 $000s**	2021 $000s
Equity			
Contributed equity	4.3	**135,578**	135,555
Accumulated losses	4.4	**(108,207)**	(111,467)
Other reserves	4.5	**(3,590)**	(3,800)
Total equity		**23,781**	20,288

For and on behalf of the Board

John McMahon

Director
24 February 2023

Director
24 February 2023

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 2022

	Note	2022 $000s	2021 $000s
Cash flows from operating activities			
Receipts from customers exclusive of GST/VAT		**71,586**	57,993
Payments to suppliers and employees exclusive of GST/VAT		**(75,874)**	(54,861)
Other (expenses) / income	2.3	**(80)**	128
Interest paid		**(344)**	(204)
Interest received	4.2	**64**	11
Taxation paid		**(225)**	(31)
Net GST/VAT received		**509**	911
Net cash (outflow) / inflow from operating activities		**(4,364)**	3,947
Cash flows from investing activities			
Payments for property, plant, and equipment	3.2	**(415)**	(134)
Proceeds from disposals of property, plant, and equipment		**36**	-
Payments for intangible assets	3.3	**(1,431)**	(2,089)
Net cash outflow from investing activities		**(1,810)**	(2,223)
Cash flows from financing activities			
Cash payment to acquire ordinary shares	4.3	**(230)**	-
New loans and drawdowns	4.1	**6,945**	2,071
Loan repayments	4.1	**(4,027)**	(1,902)
Principal payments for lease liabilities	4.1	**(232)**	(217)
Net cash inflow / (outflow) from financing activities		**2,456**	(48)
Net (decrease) / increase in cash and cash equivalents		**(3,718)**	1,676
Cash and cash equivalents at the beginning of the financial period		**5,953**	4,610
Effect of exchange rate movements on cash		**604**	(333)
Cash and cash equivalents at end of year	3.1a	**2,839**	5,953

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

Notes to the 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

AoFrio 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 company 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 24 February 2023.

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 AoFrio Limited and its subsidiaries.

Historical cost convention

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

New standards, amendments, and interpretations not yet adopted

The following accounting standards, amendments and interpretations have not had a material impact on the financial statements.

- IAS37 Onerous Contracts – Cost of Fulfilling a Contract
- IAS16 Property, Plant and Equipment

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.

- NZ IFRS 17 Insurance Contracts – effective from 1 January 2023
- IAS1 Classification of Liabilities as Current and Non-Current – effective from 1 January 2022

Going concern assumption

The Group reported a profit for the year ended 31 December 2022 of $3,260,000 (2021: profit of $5,425,000) and operating cash outflows of $4,364,000 (2021: inflows of $3,947,000). Cash at 31 December 2022 was $2,839,000 (2021: $5,953,000) and net debt (defined as cash balances net of borrowings) was $1,079,000 (2021: net cash $3,956,000).

Profitability in the 2022 year was impacted by supply chain disruptions. These disruptions resulted in constrained revenue due to component availability, increased product and logistics costs, a reduction in new product development effort and a revenue delay until Q4 FY2022. The Board considers that supply chain constraints are not an issue as the Group enters the 2023 year. The Board approved budget forecasts revenue growth in 2023 exceeding 30%, a return to new product development, improved gross margins and profitability. If global macroeconomic conditions were to adversely impact demand or cause other issues for the Group, the Group can and will manage its planned increases in operating and capital expenditure to ensure the Group maintains adequate cash reserves.

Therefore, the Board has, at the time of approving the financial statements, assessed it is appropriate to continue to adopt the going concern basis in preparing the 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 the rates prevailing on the transaction dates, and
- all resulting exchange differences are recognised in other comprehensive income as a separate component of equity.

(d). Significant 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

Areas of judgement

- Deferred tax asset – recognition – note 2.5b
- 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:

2022	**Motors $000s**	**IoT $000s**	**Unallocated $000s**	**Total $000s**
Revenue	**37,798**	**36,526**	**-**	**74,324**
Cost of goods sold	**(31,007)**	**(22,727)**	**-**	**(53,734)**
Gross profit	**6,791**	**13,799**	**-**	**20,590**
Gross margin %	**18.0%**	**37.8%**		**27.7%**
Other income	**(93)**	**22**	**140**	**69**
Operating expenses	**(3,903)**	**(7,562)**	**(7,649)**	**(19,114)**
Gain on remeasurement of contingent consideration	**-**	**68**	**-**	**68**
EBITDA	**2,795**	**6,327**	**(7,509)**	**1,613**
Depreciation	**(154)**	**(35)**	**(370)**	**(559)**
Amortisation	**(221)**	**(1,001)**	**(665)**	**(1,887)**
Impairment	**-**	**-**	**-**	**-**
Loss before interest & taxation	**2,420**	**5,291**	**(8,544)**	**(833)**
Finance income	**-**	**-**	**64**	**64**
Finance expense	**-**	**-**	**(386)**	**(386)**
(Loss) / profit before income tax	**2,420**	**5,291**	**(8,866)**	**(1,155)**
Income tax credit	**(1)**	**-**	**4,416**	**4,415**
Profit / (loss) for the year	**2,419**	**5,291**	**(4,450)**	**3,260**

2022	**Motors $000s**	**IoT $000s**	**Unallocated $000s**	**Total $000s**
Non-current assets				
Property, plant & equipment	**338**	**73**	**745**	**1,156**
Deferred tax asset	**-**	**-**	**10,538**	**10,538**
Goodwill	**-**	**3,151**	**-**	**3,151**
Other intangible assets	**3,674**	**5,986**	**96**	**9,756**
Total	**4,012**	**9,210**	**11,379**	**24,601**

2021	Motors $000s	IoT $000s	Unallocated $000s	Total $000s
Revenue	38,985	25,233	-	64,218
Cost of goods sold	(31,875)	(14,470)	-	(46,345)
Gross profit	7,110	10,763	-	17,873
Gross margin %	18.2%	42.7%		27.8%
Other income	4	36	88	128
Operating expenses	(2,539)	(4,508)	(8,005)	(15,052)
Gain on remeasurement of contingent consideration	-	(323)	-	(323)
EBITDA	4,575	5,968	(7,917)	2,626
Depreciation	(301)	(192)	(85)	(578)
Amortisation	(307)	(1,669)	(39)	(2,015)
Impairment	(393)	-	-	(393)
Loss before interest & taxation	3,574	4,107	(8,041)	(360)
Finance income	-	-	11	11
Finance expense	-	-	(207)	(207)
(Loss) / profit before income tax	3,574	4,107	(8,237)	(556)
Income tax expense	-	-	5,981	5,981
Profit / (loss) for the year	3,574	4,107	(2,256)	5,425
Non-current assets				
Property, plant & equipment	506	111	1,107	1,724
Deferred tax asset	-	-	6,051	6,051
Goodwill	-	3,127	-	3,127
Other intangible assets	3,541	5,494	457	9,492
Total	4,047	8,732	7,615	20,394

(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	**2022 $000s**	2021 $000s
Americas	**58,042**	51,068
Asia / Pacific (APAC)	**6,770**	4,950
Europe / Middle East / Africa (EMEA)	**9,512**	8,200
Total	**74,324**	64,218

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

APAC revenue includes $1,085,000 (2021: $1,493,000) 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 $30,381,000 (2021: four customers accounting for invoiced revenues of $30,293,000), all within the Americas geographic segment.

Total non-current assets	**2022 $000s**	2021 $000s
Americas	**1,134**	2,074
Asia / Pacific – mainly in New Zealand	**23,455**	18,273
Europe / Middle East / Africa	**12**	47
Total	**24,601**	20,394

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

2.2 Revenue

	2022 $000s	2021 $000s
Sales of goods revenue – recognised at a point in time	**72,128**	62,771
Services revenue – recognised over time	**2,196**	1,447
	74,324	64,218

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 sales 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 extent that it is highly probable significant reversals will not occur. The liability to pay volume rebates is recognised (included in trade and other payables) in respect of sales made up to 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 AoFrio SCS, AoFrio Monitor and AoFrio 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 as the purpose of the advance payment of revenue is for reasons other than financing.

The Group also provides software development services for customers. Revenue from these services is recognised when the contracted development is completed according to the agreed scope of work.

Contract liabilities	2022 $000s	2021 $000s
Carrying amount at start of year	**6,793**	4,196
Invoiced in the year	**5,137**	3,860
Recognised in revenue	**(2,196)**	(1,447)
Exchange adjustment	**428**	184
Carrying amount at end of year	**10,162**	6,793
Current portion	**2,008**	1,431
Non-current portion	**8,154**	5,362
	10,162	6,793

2.3 Other income

	2022 $000s	2021 $000s
Net foreign exchange (losses) / gains	**(133)**	74
Covid-19 Government support	**-**	15
Remeasurement of right-of-use liability	**149**	-
Other income	**53**	39
	69	128

2.4 Operating expenses include

	2022 $000s	2021 $000s
Wages and salaries and other short-term benefits	**12,673**	11,300
Employer contributions to Kiwisaver and 401K plans	**459**	385
Employee share options expense	**95**	31
Total employee benefits	**13,227**	11,716
Payments to contractors	**1,886**	1,591
Capitalisation of labour and expenses to intangible assets	**(1,382)**	(2,057)

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.

Wages and salaries in 2021 included $1,109,000 for the reimbursement in the year of 2020 staff salary reductions which were an important component of the Group's Covid 19 response.

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

	2022 $000s	2021 $000s
Current year income tax expense	**(72)**	(70)
Deferred tax – recognition of deferred tax asset	**4,487**	6,051
Income tax credit	**4,415**	5,981

The income tax credit for the year can be reconciled to the result before tax as follows:

	2022 $000s	2021 $000s
Reported loss for the year before tax	**(1,155)**	(556)
Tax at 28%	**(323)**	(156)
Adjustment of prior periods	**67**	-
Effect of different tax rates of subsidiaries in other jurisdictions	**(14)**	(5)
Tax effect of non-deductible / non-assessable items	**(84)**	(31)
Tax effect of utilisation of losses in current period	**(1,430)**	122
Recognition of carried forward tax losses	**6,199**	6,051
Income tax credit for the year	**4,415**	5,981

(b). Deferred tax

As it is probable that future taxable amounts will be available to utilise temporary differences and losses, a deferred tax asset is recognised for deductible temporary differences and for that portion of the unused tax losses that are expected to be utilised in the five years 2023 through to 2027 (2021: 2022 to 2026). The key judgements within the forecast taxable profit model include revenue growth rates and gross margin. No deferred tax asset has been recognised in respect of the remaining tax losses to carry forward due to uncertainty as to forecast taxable income after the five years.

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 tax rate applicable to each group company has been used to determine the below recognised and unrecognised deferred tax assets:

	2022 $000s	2021 $000s
Doubtful debts	**10**	26
Inventory provisions and unrealised profit	**(118)**	58
Employee benefits	**283**	357
Internally generated development	**(2,549)**	(2,394)
Warranty provision	**50**	58
Contract liabilities	**1,281**	-
Rebates	**242**	164
Fixed assets	**(11)**	81
Right of use lease liability	**(213)**	(277)
Other timing differences	**57**	(12)
Total temporary differences	**(968)**	(1,939)

	2022 $000s	2021 $000s
Tax losses to carry forward	**31,944**	32,766
Total temporary differences and tax losses to carry forward	**30,976**	30,827
Deferred tax asset recognised for:		
Temporary differences	**(968)**	(1,939)
Carry forward tax losses utilised	**11,506**	7,990
Total recognised	**10,538**	6,051

The benefit of unrecognised tax losses is $20,438,000 (2021: $24,776,000). Of the total consolidated losses available to carry forward to future years, $2,922,000 (2021: $2,798,000) 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 2022 year no USA Federal tax losses expired (2021: None).

(c). Imputation credits

The Group has no imputation credits available (2021: $nil) and no movements occurred in the Imputation Credit Account (2021: $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 profit of 0.75 cents (2021: profit of 1.26 cents) is calculated by dividing the profit attributable to equity holders of the Company of $3,260,000 (2021: profit of $5,425,000) by the weighted average number of ordinary shares in issue during the year of 432,198,399 (2021: 431,914,620).

Diluted EPS of a profit of 0.73 cents (2021: loss of 0.50 cents) is calculated by dividing the profit attributable to equity holders of the Company of $3,260,000 (2021: profit of $5,425,000) by the weighted average number of shares in issue during the year, after adjusting for effects of 12,930,000 dilutive potential ordinary shares.

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.

	2022 $000s	2021 $000s
Cash on hand and at bank	**2,254**	2,451
Call deposits	**230**	3,427
Short term bank deposit	**355**	75
	2,839	5,953

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

NZD	**534**	485
USD	**1,757**	4,579
Other	**548**	889
	2,839	5,953

(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 2014 to 2022 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 (2021: 1.5% and 0.1% respectively).

	2022 $000s	2021 $000s
Trade receivables	**25,489**	16,498
Provision for loss allowance	**(92)**	(90)
Net trade receivables	**25,397**	16,408
Prepayments	**620**	837
VAT/GST refunds due	**166**	133
Income tax refund due	**281**	214
Other receivables	**212**	255
	26,676	17,847

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

NZD	**660**	133
USD	**24,210**	16,443
EUR	**853**	540
MXP	**296**	1
Other	**657**	730
	26,676	17,847

Provision for loss allowance		
Carrying amount at start of year	**90**	157
Decrease in loss allowance	**(3)**	(78)
Exchange adjustment	**5**	11
Carrying amount at end of year	**92**	90

The decrease in provision is recognised within 'Operating expenses' in the Statement of Comprehensive Income

(c). Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory 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.

	2022 $000s	2021 $000s
Finished goods – at cost	**6,687**	4,727
Raw materials – at cost	**2,572**	320
Less inventory provisions	**(382)**	(447)
Total inventories	**8,877**	4,600

Cost of inventories recognised as an expense and included in cost of sales $51,245,000 (2021: $44,099,000).

(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.

	2022 $000s	2021 $000s
Trade payables	**21,787**	14,508
Employee entitlements	**1,668**	1,791
GST / VAT payable	**394**	353
Accrued expenses	**1,246**	2,515
	25,095	19,167

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

NZD	**2,293**	2,225
USD	**21,720**	16,106
Other	**1,082**	836
	25,095	19,167

(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	2022 $000s	2021 $000s
Carrying amount at start of year	**205**	315
Additional provisions recognised	**29**	56
Amounts used	**(74)**	(178)
Exchange adjustment	**17**	12
Carrying amount at end of year	**177**	205

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 2021				
Opening net book amount	914	224	945	2,083
Reclassification	(9)	9	-	-
Additions	59	75	-	134
Depreciation	(276)	(135)	(167)	(578)
Exchange adjustment	31	23	31	85
Closing net book amount	719	196	809	1,724

	Plant & equipment $000s	Office equipment, furniture & fittings $000s	Properties $000s	Total $000s
At 31 December 2021				
Cost	6,211	1,092	2,178	9,481
Accumulated depreciation and impairment	(5,443)	(849)	(1,379)	(7,671)
Exchange adjustment	(49)	(47)	10	(86)
Net book amount	719	196	809	1,724
Year ended 31 December 2022				
Opening net book amount	**719**	**196**	**809**	**1,724**
Additions	**271**	**144**	**-**	**415**
Depreciation	**(256)**	**(112)**	**(191)**	**(559)**
Disposals	**-**	**-**	**-**	**-**
Remeasurement of right-of-use asset	**-**	**-**	**(517)**	**(517)**
Exchange adjustment	**39**	**5**	**49**	**93**
Closing net book amount	**773**	**233**	**150**	**1,156**
At 31 December 2022				
Cost	**6,260**	**1,236**	**1,661**	**9,157**
Accumulated depreciation and impairment	**(5,477)**	**(961)**	**(1,570)**	**(8,008)**
Exchange adjustment	**(10)**	**(42)**	**59**	**7**
Net book amount	**773**	**233**	**150**	**1,156**

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 2022 amounted to $229,000 (2021: $244,000).

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 IoT hardware. 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 IoT hardware, 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 2021					
Opening net book amount	8,854	217	3,139	187	12,397
Additions	2,042	39	-	8	2,089
Amortisation	(1,948)	(53)	-	(14)	(2,015)
Impairment	(393)	-	-	-	(393)
Exchange adjustment	530	12	(12)	11	541
Closing net book amount	9,085	215	3,127	192	12,619
At 31 December 2021					
Cost	22,646	1,610	3,219	869	28,344
Accumulated amortisation & impairment	(13,872)	(1,423)	-	(659)	(15,954)
Exchange adjustment	311	28	(92)	(18)	229
Net book amount	9,085	215	3,127	192	12,619
Year ended 31 December 2022					
Opening net book amount	**9,085**	**215**	**3,127**	**192**	**12,619**
Additions	**1,386**	**40**	**-**	**5**	**1,431**
Amortisation	**(1,818)**	**(55)**	**-**	**(14)**	**(1,887)**
Impairment	**-**	**-**	**-**	**-**	**-**
Exchange adjustment	**687**	**18**	**24**	**15**	**744**
Closing net book amount	**9,340**	**218**	**3,151**	**198**	**12,907**
At 31 December 2022					
Cost	**24,032**	**1,650**	**3,219**	**874**	**29,775**
Accumulated amortisation & impairment	**(15,690)**	**(1,478)**	**-**	**(673)**	**(17,841)**
Exchange adjustment	**998**	**46**	**(68)**	**(3)**	**973**
Net book amount	**9,340**	**218**	**3,151**	**198**	**12,907**

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

Internally generated development costs include $2,969,000 (2021: $3,383,000) for projects underway and not complete at balance date. This cost is not yet being amortised.

Movement in intemally generated development costs	**2022 $000s**	2021 $000s
Opening net book amount - projects not completed	**3,383**	5,493
Additions	**1,386**	2,042
Completed	**(1,800)**	(3,891)
Impaired	**-**	(393)
Exchange adjustment	**-**	132
Closing net book amount - projects not completed	**2,969**	3,383

An impairment assessment has been performed at 31 December 2022 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	2022 $000s	2021 $000s
Amortisation of intangible assets	**1,887**	2,015
Impairment of intangible assets	**-**	393
	1,887	2,408

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 2022.

The recoverable amount of the IoT CGU at 31 December 2022 has been determined based on a value in use calculation using cash flow projections from the annual operating budget approved by senior management for 2023. The pre-tax discount rate applied to cash flow projections is 16% (2021: 14%) and cash flows beyond 2023 using a 9.4% growth rate (2021: 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.
- Operating expense increases.

Gross margins are based on current pricing and product costs. The gross margin in 2022 was 37.8% and is forecast at 44.2% for 2023. The assumption is that operating expenses comprising mainly employee costs are maintained at the same ratio to sales. In the 2023 annual operating budget, the ratio of operating expenses to revenue is 16.3%.

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 AoFrio to execute strategy and to deliver its business plan.

4.1 Borrowings

	2022 $000s	2021 $000s
Current portion		
Bank trade finance facility	**2,652**	75
Bank loans	**436**	228
Liabilities in respect of right-of-use assets	**83**	232
Other borrowings	**281**	196
Liability at end of year	**3,452**	731
Non-Current portion		
Liabilities in respect of right-of-use assets	**-**	760
Bank loans	**306**	284
Other borrowings	**160**	222
Liability at end of year	**466**	1,266

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:

	2022 $000s	2021 $000s
Liability at start of year	**1,005**	824
New loans and drawdowns	**6,945**	2,071
Repayments	**(4,027)**	(1,902)
Exchange adjustment	**(88)**	12
Liability at end of year	**3,835**	1,005

Bank trade finance facility

The bank trade finance facility increased from $2.5m to $5m on 2 November 2022. The facility has no term, is repayable on demand and is secured. 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 2022 was 7.92% (2021: 4.28%). The Company has complied with all covenants.

Bank term loans

The Company's US subsidiary loan is US$198,800 under the Small Business Act. The SBA loan has monthly repayments over a 30-year term. Interest is payable at 3.75% pa.

The Company's Mexican subsidiary has a 5 million Mexican Pesos loan ($408,000 at 31 December 2022) from the Banco del Bajio. The loan is repayable after 180 days and interest is payable at 5% pa above the Tiie Rate.

Movements in liabilities in respect of right-of-use assets during the year were:

	2022 $000s	2021 $000s
Liability at start of year	**992**	1,209
New Liabilities	**-**	-
Remeasurement	**(677)**	-
Repayments	**(232)**	(217)
Liability at end of year	**83**	992

4.2 Finance

	2022 $000s	2021 $000s
Finance income		
Other interest income	64	11
	64	11
Finance expenses		
Interest expense – Bank loans	90	27
Other interest expense	296	180
	386	207

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.

	2022 Shares	2021 Shares	2022 $000s	2021 $000s
Ordinary shares – fully paid	**431,853,006**	431,914,620	**135,578**	135,553
Ordinary shares – partly paid	**-**	-	**-**	2
Total shares and options on issue	**431,853,006**	431,914,620	**135,578**	135,555

(a). Ordinary shares – fully paid

Opening balance of ordinary shares on issue	**431,914,620**	431,914,620	**135,553**	135,553
Issue of ordinary shares during the year:	**1,574,196**	-	**253**	-
Ordinary shares acquired and cancelled	**(1,635,810)**	-	**(228)**	-
Ordinary fully paid shares on issue at year end	**431,853,006**	431,914,620	**135,578**	135,553

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	**-**	421,980	**2**	2
Repayment of part paid shares	**-**	(421,980)	**(2)**	-
Ordinary part paid shares on issue at year end	**-**	-	**-**	2

4.4 Accumulated losses

	2022 $000s	2021 $000s
Opening balance	**(111,467)**	(116,892)
Profit for the year	**3,260**	5,425
Accumulated losses at end of year	**(108,207)**	(111,467)

4.5 Other reserves

	2022 $000s	2021 $000s
Share option compensation reserve	**448**	353
Currency translation reserve	**(4,038)**	(4,153)
	(3,590)	(3,800)

(a). Share Option Compensation Reserve

	2022 $000s	2021 $000s
Share based compensation recognised at start of year	**353**	322
Net compensation expensed	**95**	31
	448	353

(b). Currency Translation Reserve

	2022 $000s	2021 $000s
Opening balance	**(4,153)**	(4,270)
Exchange gains on translation of foreign operations	**115**	117
	(4,038)	(4,153)

5. Risk

This section presents information about the Group's exposure to financial and commercial risks; the Group's objectives, policies and processes for managing those risks.

5.1 Key financial risks

The Group's principal financial instruments comprise receivables, payables, cash and cash equivalents, borrowings, and derivatives.

The Group manages its exposure to the key financial risks – market risk (including foreign currency risk and interest rate risk), credit risk, liquidity risk and capital risk. The Group enters into derivative transactions (principally forward currency contracts) to manage currency risks.

(a). Financial market risk

Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures. Presently the Group's revenue is based on USD pricing and invoicing is substantially 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 for currencies other than USD, expressed in NZD was:

2022	**EUR**	**NZ$**	**Brazil Real**	**Mexican Peso**	**Other**
Cash	**-**	**534**	**-**	**-**	**548**
Trade and other receivables	**853**	**660**	**498**	**296**	**159**
Trade and other payables	**-**	**(2,293)**	**(299)**	**(593)**	**(190)**
Borrowings	**-**	**(523)**	**-**	**(408)**	**-**
2021					
Cash	-	485	-	-	889
Trade and other receivables	585	133	312	1	373
Trade and other payables	(43)	(2,225)	-	(172)	(621)
Borrowings	-	(1,410)	-	(213)	-

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:

	2022 $000s	2021 $000s
USD exchange rate increase 10% relative to other currencies	**24**	122
USD exchange rate decrease 10% relative to other currencies	**(24)**	(122)

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 $8,257,000 (2021: three debtors accounting for outstanding debt of $7,929,000).

At balance date, trade receivables of $1,387,000 were past due but not considered impaired (2021: $725,000). Of this amount $685,000 (2021: $228,000) 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. $794,000 is deposited with a major NZ trading bank with a Standard & Poors rating of AA- (2021: $2,248,000 AA-) and $336,000 (2021: $2,230,000) with Western Union with a Standard & Poors rating of BBB/A-2. The remaining balance of $1,679,000 (2021: $1,475,000) 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.

	2022			2021		
$000s	**Less than 6 months**	**7 to 12 months**	**2 to 5 year**	Less than 6 months	7 to 12 months	2 to 5 years
Trade and other payables	**25,026**	**-**	**-**	19,046	-	-
Borrowings	**3,232**	**137**	**466**	394	105	506
Right-of-use asset liabilities	**83**	**-**	**-**	114	118	760
	28,341	**137**	**466**	19,554	223	1,266

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.

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

	2022 $000s	2021 $000s
Total borrowing	**3,918**	1,997
Total equity	**23,781**	20,288
Gearing	**16.5%**	9.8%

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	**2022**	2021
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 Latin America Services SA de CV	Mexico	Ordinary	**100%**	100%
iProximity Pty Limited	Australia	Ordinary	**100%**	100%
Wellington Iberia S.L.	Spain	Ordinary	**100%**	100%

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 AoFrio's SCS System controller unit sales ('SCS Target') for the same period (9,448,964 shares).

EBIT targets were not achieved so the A$500,000 cash consideration was not payable and the 9,448,964 fully paid ordinary shares were not required to be issued in respect of those targets. The Company 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. 1,574,828 shares were issued in April 2022 in respect of the extended and revised target. No further contingent consideration is payable.

Contingent consideration	**2022 $000s**	2021 $000s
Fair value at start of year	**323**	**-**
Settlement during the period	**(255)**	**-**
Remeasurement recognised in income statement	**(68)**	**323**
Total	**-**	**323**

6.2 Related party transactions

(a). Directors

The names of persons who are directors of the Company are on pages 42 to 43.

(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.

	2022 $000s	2021 $000s
Salaries, fees, and other short-term benefits	**2,400**	1,776
Share based remuneration	**95**	31
Directors' remuneration	**281**	561
Total	**2,776**	2,368

(c). Employee share-based remuneration

In 2021, 12,930,000 options were issued to the Chief Executive Officer. 8,620,000 options (Tranche One) will vest on 1 October 2024 and 4,310,000 options (Tranche Two) will vest on 1 October 2025, if the CEO remains a full-time employee on those dates. The exercise price of the Tranche One options is 9.1 cents and of the Tranche Two options is 11.5 cents.

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.

Fair value is assessed at the date that the share options are issued using a binomial option pricing model that takes into account the exercise price, the term of the options, the exercise criteria, the likelihood of staff turnover, the non-tradable nature of the option, the share price at the issue date, the volatility of the returns on the underlying share and the risk-free interest rate for the term of the options.

(d). East West Manufacturing LLC

East West Legacy LLC, a substantial security holder in the Company, is considered a related party under NZX Listing Rules. The Group does not transact with East West Legacy LLC. East West Manufacturing LLC ceased to be a shareholder in the Company on 22 December 2021 and is no longer considered to be a related party.

6.3 Contingencies

There are no material contingent liabilities or assets (2021 - $nil).

6.4 Financial instruments by category

	2022 $000s	2021 $000s
Assets per Statement of Financial Position Financial assets measured at amortised cost		
Trade and other receivables	**25,609**	16,663
Cash and cash equivalents	**2,839**	5,953
Derivatives used for hedging (at fair value)		
Derivative financial instruments	**140**	-
	28,588	22,616
Liabilities per Statement of Financial Position at amortised cost		
Trade and other payables	**25,095**	19,167
Borrowings	**3,918**	1,997
Derivatives used for hedging (at fair value)		
Derivative financial instruments	**-**	21
Contingent consideration	**-**	323
	29,013	21,508

Fair value estimation

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

The forward exchange contract has been classified as Level 2.

The different levels have been defined as follows:

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

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

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	**2022 $000s**	2021 $000s
Properties	**114**	765
Plant & equipment	**3**	21
Office equipment and furniture & fittings	**2**	5
Total	**119**	791

There were no additions to right-of-use assets in the year (2021: Nil).

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

Depreciation charge for right-of-use assets		
Properties	**193**	180
Plant & equipment	**18**	18
Office equipment and furniture & fittings	**3**	3
Total	**214**	201
Interest expense on lease liabilities	**47**	75
Expense relating to short-term leases (included in operating expenses)	**50**	42

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

Total principal payments for right-of-use assets	**232**	217

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.
- 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.
- 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	**2022 $000s**	2021 $000s
Deloitte		
- Audit of financial statements of the Group – current year	**177**	170
- Non audit services *1	**48**	49
Audit of subsidiaries by other auditors – Thong & Lim	**4**	4
	229	223

*1 Non audit services relate to tax compliance.

6.7 Cash flow information

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

	2022 $000s	2021 $000s
Profit for the year	**3,260**	5,425
Adjustments for:		
Income tax credit	**(4,415)**	(5,981)
Depreciation, amortisation & impairment	**2,446**	2,986
Share based payments	**95**	31
Decrease in inventory provision	**(65)**	(7)
Increase / (decrease) in loss allowance provision	**2**	(67)
Decrease in provision for warranty	**(28)**	(110)
Change in fair value of contingent consideration	**(68)**	323
Net foreign exchange differences	**(1,845)**	(163)
Increase in trade and other receivables	**(8,831)**	(9,206)
Increase in contract liabilities	**3,369**	2,597
Increase in inventories	**(4,212)**	(1,176)
Increase in trade and other payables	**5,928**	9,295
Net cash (outflow) / inflow from operating activities	**(4,364)**	3,947

(b). Net cash / (debt) reconciliation

	2022 $000s	2021 $000s
Cash and cash equivalents	**2,839**	5,953
Borrowings – repayable within one year	**(3,452)**	(731)
Borrowings – repayable after one year	**(466)**	(1,266)
Net cash / (debt)	**(1,079)**	3,956

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 decrease in cash during the year of $3,114,000 (2021: increase $1,343,000 included a $604,000 increase (2021: $333,000 decrease) caused by exchange rate movement.

6.8 Events after reporting date

There are no events after reporting date requiring disclosure. The recent weather events in New Zealand and earthquake in Turkey did not materially impact the Group.

Deloitte.

Independent Auditor's Report

To the Shareholders of AoFrio Limited

Opinion

We have audited the consolidated financial statements of AoFrio Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of comprehensive income, statement of changes in equity and consolidated 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 48 to 85, present fairly, in all material respects, the consolidated statement of financial position of the Group as at 31 December 2022, and its consolidated comprehensive income and consolidated cash flow statement 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.

Our firm carries out other assignments for the Group in the area of taxation advice, including tax compliance services. These services have not impaired our independence as auditor of the Company and Group. In addition to this, partners and employees of our firm deal with the Company and its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Company and its subsidiaries. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

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 $1,000,000.

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
Revenue recognition The Group has reported revenue for the sale of goods of $72.1 million, (2021: $62.8 million) as set out in note 2.2 of the financial statements. The Group recognises revenue for the sale of goods either when the goods have been delivered, or when the goods are shipped depending on the terms agreed with each customer. As material volumes of sales can occur around year end, there is a risk that revenue is recognised in the incorrect period. As a result, revenue recognition is a key audit matter.	Our procedures focused on the recording of revenue around year end and included: • Obtaining an understanding of the policies, processes and controls in place to recognise revenue; • Testing a sample of revenue transactions recorded in the period around year end to determine whether revenue was recognised in the appropriate period with reference to contracted shipping terms for the order, and documentation to support the timing of when the goods are dispatched or shipped (such as shipping documentation); • Investigating sales transactions which had unusual time differences between when revenue is recognised in the accounting system compared to the dispatching log; and • Testing manual journal entries, including credit notes, that impacted on revenue accounts around year end.
Recoverability of deferred tax assets in relation to prior period tax losses The Group has recognised a deferred tax asset of $10.5 million (2021: $6.1 million) as set out in note 2.5 of the financial statements. The Group also has unrecognised, carry forward tax losses of $87.3 million (2021: $88.5 million). Judgement is required to determine the probability that future taxable amounts will be available to utilise temporary differences and losses. We have included the recoverability of deferred tax assets as a key audit matter due to the judgement involved regarding the future profitability of the Group, and timing of when the losses would be utilised in each tax jurisdiction.	Our procedures included, amongst others: • Obtaining an understanding of the policies, processes and controls relevant to the Group's assessment of the recoverability of deferred tax assets, and cash flow forecasts used in that assessment. • Assessing the future profit forecasts by jurisdiction, as used to support the additional recognition and recovery of deferred tax assets. This included: ◦ comparing taxable profit forecasts to Board approved budgets and considering the historical accuracy of previous forecasts; ◦ challenging the key assumptions in the cash flow forecasts, in particular over revenue growth and gross margin; and ◦ assessing the consistency of the forecasts used with those used elsewhere in the business (such as for going concern or impairment purposes). • Working with internal tax specialists to challenge management's judgements for each jurisdiction, including over the timing of future taxable profits, and whether tax losses will continue to be available when the taxable profits are expected to arise.

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.

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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
24 February 2023

This audit report relates to the consolidated financial statements of AoFrio Limited (the 'Company') for the year ended 31 December 2022 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 24 February 2023 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.

The Company does not have a credit rating.

Remuneration of Directors

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

	2022	2021
Mr J. McMahon [1]	**$52,917**	$50,000
Mr G. Pausch [2]	**$85,167**	$193,000
Mr K Oliver [3]	**$50,833**	$50,000
Mr J. Scott	**$50,833**	$45,000
Mr G Allen [4]	**$50,833**	109,008

Note.
1. Fees for Mr J McMahon are paid to Meta Capital Ltd.
2. Fees for Mr G Pausch are paid to Board Advisory Services Ltd.
3. Fees for Mr K Oliver are paid to Alto Capital Ltd.
4. Mr G Allen was appointed a director on 30 October 2020. His fees are paid to RJ-Alpha Advisory Services Ltd.

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.
- 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 2022 was $128,795 (2021: $115,315).
- Directors' share transactions: 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

	31 December 2022		31 December 2021	
Ordinary shares	**Direct**	**Total Relevant Interest**	Direct	Total Relevant Interest
Mr J. McMahon	**19,178,253**	**-**	19,178,253	-
Mr J Scott	**-**	**850,000**	-	850,000
Mr G Allen	**-**	**7,493,382**	-	7,493,382
Mr G Pausch	**-**	**2,416,640**		2,416,640

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			Group	
	2022	2021		**2022**	2021
$100,000 - $109,999	**6**	4	$240,000 - $249,999	**-**	1
$110,000 - $119,999	**9**	7	$250,000 - $259,999	**-**	3
$120,000 - $129,999	**9**	4	$260,000 - $269,999	**2**	-
$130,000 - $139,999	**3**	4	$270,000 - $279,999	**-**	2
$140,000 - $149,999	**3**	1	$290,000 - $299,999	**2**	1
$150,000 - $159,999	**5**	2	$300,000 - $309,999	**-**	2
$160,000 - $169,999	**2**	3	$310,000 - $319,999	**1**	-
$170,000 - $179,999	**2**	1	$320,000 - $329,999	**-**	1
$180,000 - $189,999	**4**	4	$340,000 - $349,999	**-**	1
$190,000 - $199,999	**3**	2	$390,000 - $399,999	**-**	-
$200,000 - $210,000	**5**	2	$440,000 - $449,999	**-**	1
$210,000 - $219,999	**1**	2	$450,000 – $459,000	**1**	-
$220,000 - $229,000	**2**	-	$490,000 - $499,000	**1**	-

Donations

No donations have been made by the Company during the year ended 31 December 2022 (2021: Nil).

Shareholder information

Shareholders

As at 31 December 2022 there were 1,387 shareholders holding 431,853,006 fully paid ordinary shares.

Share issues

The only issue of shares in 2022 was the issue of 1,574,196 ordinary shares in settlement of the deferred purchase price under the iProximity Pty Limited Sale and Purchase agreement dated February 2018.

Shareholder details

The ordinary shares of AoFrio Limited are listed on the New Zealand Stock Exchange. The information in the disclosures below has been taken from the Company's share register on 10 February 2023:

20 largest shareholders	Ordinary shares
1. East West Legacy LLC.	55,149,807
2. Wairahi Investments Limited	25,800,000
3. Ballynagarrick Investments Ltd	21,185,103
4. Tea Custodians Ltd	20,387,749
5. ASB Nominees Ltd (Meta Capital Ltd)	19,178,253
6. HSBC Nominees (New Zealand) Ltd	18,531,744
7. Graham Trustees Ltd	16,592,744
8. Hobson Wealth Custodians Ltd	15,869,839
9. FNZ Custodians Ltd	12,506,855
10. New Zealand Depository Nominee Ltd	9,006,627
11. Accident Compensation Corporation	7,508,353
12. Flynn No 2 Trustees Ltd	7,054,758
13. Greg Allen	6,488,049
14. BNP Paribas Nominees (NZ) Ltd	6,040,189
15. JP Morgan Chase Bank NA New Zealand Branch	4,901,165
16. Forsyth Barr Custodians Ltd	4,152,117
17. Lean Holdings Pty Ltd	4,125,123
18. FNZ Custodians Ltd	3,740,858
19. Howard Duncan Milliner	3,536,561
20. Sujin Boonchuay	3,291,073

Distribution of equity securities

Size of holdings at 15 February 2023.

			Shareholders		Fully paid Ordinary Shares	
			Number	%	Number	%
1	-	999	47	3.38	18,809	0.00
1,000	-	1,999	29	2.09	36,603	0.01
2,000	-	4,999	38	2.74	113,889	0.03
5,000	-	9,999	221	15.91	1,586,517	0.37
10,000	-	49,999	567	40.82	12,961,759	3.00
50,000	-	99,999	178	12.81	12,023,290	2.78
100,000	-	499,999	212	15.26	44,288,545	10.26
500,000	-	999,999	38	2.74	26,178,705	6.06
over		1,000,000	59	4.25	334,644,889	77.49
			1,389	100.00	431,853,006	100.00

59 (or 4.25%) shareholders, holding 73,716,421 shares (or 17.07%) reside outside of 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	48,823,486	20 July 2021
Wairahi Investments Ltd	26,120,286	4 August 2021
East West Legacy, LLC	55,149,807	24 December 2021

[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 enquiries

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the directory on page 105. 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@aofrio.com or visit our website www.aofrio.com.

Announcements to shareholders

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

Announcements are also posted on our website www.aofrio.com

Corporate governance

The Board and Management of AoFrio 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 AoFrio's operations. The Board endorses the overall principles embodied in the NZX Corporate Governance Code 2020 (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 AoFrio has in place and highlighting the small number of areas of the NZX Code where we have not fully followed the Code's recommendations.

This statement is current to 24 February 2023 and has been approved by the AoFrio Board of Directors.

Board and committee charters, codes and policies referred to in this section are available to view at https://aofrio.com/investors/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 AoFrio team members and directors:** AoFrio 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 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 AoFrio's best interests always
√ Protect the confidentiality of AoFrio'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 AoFrio into disrepute
- √ Deal honestly with AoFrio's people, customers, shareholders, suppliers and other stakeholders
- √ Ensure that they do not knowingly enter into transactions or make commitments on behalf of AoFrio that the Company cannot or does not intend to fully honour
- √ Undertake their duties with care and diligence
- √ Ensure that any personal opinions AoFrio 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 AoFrio's records and documents, including financial reports, are true, correct and conform to AoFrio'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.

AoFrio 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. AoFiro 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.

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

- **Rules for Trading in AoFrio Securities:** The Rules for Trading in AoFrio Securities require all staff and directors to seek approval in accordance with the rules before buying or selling any AoFrio securities. The policy details "blackout periods" when 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.

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

Principle 2 – Board composition and performance

The AoFrio 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 AoFrio Board Charter.

The AoFrio 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, four of whom are considered independent.

Profiles of all directors and their dates of appointment are set out in the Directors section of this Annual Report on pages 42 to 43 and are available on the Company's website.

Attendance at meetings held during 2022 was:

Directors' meetings	John McMahon	Gottfried Pausch	Keith Oliver	John Scott	Greg Allen
Meetings held whilst a director	11	11	11	11	11
Attendance	11	11	11	11	11

Audit Committee meetings	John McMahon	Keith Oliver	Gottfried Pausch
Meetings held whilst a committee member	3	3	3
Attendance	3	2	3

Executive Appointment & Remuneration Committee meetings	Keith Oliver	Gottfried Pausch
Meetings held whilst a committee member	2	2
Attendance	2	2

Risk Committee meetings	Greg Allen
Meetings held whilst a committee member	2
Attendance	2

Technology & Innovation Committee meetings	John Scott
Meetings held whilst a committee member	1
Attendance	1

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 and considers director succession planing. 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 AoFrio, 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. AoFrio has a very small number of employees, a significant number of whom 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, AoFrio 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. AoFrio recognises diversity brings a range of ideas, skills and innovation to the Company, which is important to the achievement of our objectives. The Board is generally satisfied with the Company's performance in relation to diversity, but 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.

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 as at 31 December 2022:

	Male		Female		Total
31 December 2022	#	%	#	%	
Board	5	100%	-	-	5
Senior management team*	5	56%	4	44%	9
Other staff	73	76%	23	24%	96
Total Company	83	75%	27	25%	110

	Male		Female		Total
31 December 2021	#	%	#	%	
Board	5	100%	-	-	5
Senior management team*	6	75%	2	25%	8
Other staff	64	79%	17	21%	81
Total Company	75	80%	19	20%	94

* 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.

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

Principle 3 – Board committees

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 Committee operates under a charter approved by the Board and assists the Board in; 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 currently comprises three non-executive directors, all of whom independent and one of whom has a financial or accounting background. The Chairman of the Committee is not also the Chairman of the Board. Employees only attend meetings of the Audit and Risk Committee at the invitation of the Committee.

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

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 Committee must be comprised of at least a majority of independent directors. Employees only attend meetings of the Executive Appointment and Remuneration Committee at the invitation of the Committee.

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

Technology and Innovation Committee

The Technology & Innovation Committee operates for the primary purpose of overseeing and providing counsel on matters of innovation and technology. It is chaired by John Scott.

Risk Committee

The Risk Committee operates for the primary purpose of taking reasonable steps to acquire and maintain up-to-date knowledge of enterprise risk management. It is chaired by Greg Allan.

Other committees

From time-to-time the Board may establish a committee to assist in the management of a matter or project.

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, AoFrio 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.aofrio.com/governance

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

Principle 4 – Reporting and disclosure

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 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 AoFrio'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 would make any of the statements untrue or materially misleading.

AoFrio 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. 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 promptly 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

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

AoFrio has a detailed share trading policy, the Rules for Trading in AoFrio Securities 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 AoFrio 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 AoFrio Board or (where the Chair is unavailable) the Chair of the Board's Audit Committee, will approve or decline the application. The Company monitors trading and reports share movements to the Board at every meeting.

Information for investors

AoFrio's investor website https://aofrio.com/investors/financial-results-and-reports/ 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.

Principle 5 – Remuneration

The Executive Appointment and Remuneration Committee is responsible for ensuring directors and executives receive the appropriate rewards to support AoFrio 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.

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

Director remuneration

Directors' fees are intended to be aligned with other organisations of similar scale and complexity. Directors' fees are currently set at a maximum aggregate cap of $400,000 per annum. This was approved by shareholders at the 2019 Annual Meeting. Directors' fees paid in the 2022 financial year amounted to $290,583 due to the small size of the Board. Full disclosure of director remuneration is set out on page 90. Other than as disclosed here, no director is entitled to any other remuneration or retirement benefits from AoFrio. 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 AoFrio business.

The Executive Appointment and Remuneration Committee conducts a regular 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, scope and complexity. At the 2022 Annual Meeting, shareholders approved increases to fees paid to directors but within the $400,000 aggregate cap. The next review is scheduled for early 2025. Any increases in fees paid to directors must be authorised by the Board and be within the above aggregate cap approved by shareholders.

Executive Remuneration Policy

AoFrio'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 above, the Company recognises our people are critical to our business and its growth strategies. AoFrio'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.

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 40% 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

AoFrio 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. There are no partly paid share issues or options currently outstanding.

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 tables sets out the payments made to the CEO during FY2022.

Greg Balla – CEO	
Fixed remuneration	$485,437
Employer contributions to KiwiSaver	$10,922
Total remuneration	$496,359

Greg Balla does not participate in the Company's STI programme. He has been issued 12,930,000 share options representing 2.99% of the Company's ordinary shares at the time of issue. Provided he is a full-time employee at that date, 8.62 million options shall vest on 1 October 2024 and may be exercised within 18 months following 1 October 2024 at an exercise price of 9.1 cents per share. Provided he is a full-time employee on 1 October 2025, a further 4.31 million options shall vest on 1 October 2025 and may be exercised within 18 months of that date at an exercise price of 11.5 cents per share.

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 above, the Board has established an Audit Committee and a separate Risk Committee to assist the Board with its 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 committees provide 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 Board.

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 AoFrio'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 AoFrio'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 2022 other services provided by Deloitte amounted to $48,000 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 small 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 control, 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.

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

Principle 8 – Shareholder rights and relations

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 on a timely basis.

Shareholders can directly communicate with the Company via https://aofrio.com/investors/financial-results-and-reports/. 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.

The annual meeting for the 2023 year is planned to be held on 24 May 2023. All shareholders are welcome to attend and ask questions, whether or not the meeting is held virtually or in person or appoint a proxy on their behalf, or submit a postal vote, if they are unable to attend. The external auditor, Deloitte will be in attendance to answer questions about the audit and their audit report.

Shareholders are encouraged to attend, participate and vote at meetings. Results of proxies and postal votes are summarised and disclosed at the meeting. Results of meetings are announced on the NZX as soon as possible following the closure of the shareholder meeting.

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