



## Interim Report

31 December 2005

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Our agents in Turkey have obtained a good level of orders for AirMoVent (low efficiency) commercial refrigeration motors. Orders for AirMoVent motors were also obtained in the United States. First deliveries of these products were made during the half year. We expect AirMoVent motors to contribute significantly to our revenues, and profits, this financial year. Customers that have made initial purchases of AirMoVent motors have also begun to order small quantities of high-efficiency ECR motors, as expected.

During the half-year, some batches of finished fan products were rejected as out of specification on delivery by two European customers, resulting in some exceptional warranty costs as replacements were delivered and the suspected non-conforming product was retrieved and reworked. Subsequent investigations have cast doubt as to whether our products were, in fact, at fault in one of these cases and recovery of the costs are being discussed with the customer involved.

Reliability of our products in service remains excellent.

### Production and Logistics

Stock levels remain high, as we are taking a conservative view as production of some finished products is transferred to Asia. Relative stock levels should begin to decline in the last quarter of this financial year.

We have excellent partners in Asia and the quality of our products being produced there is now good. Consideration is being given to moving to China some of the finishing activities currently carried out in Europe. This will significantly reduce logistics costs, will improve margins and will free up capacity at our European offices to concentrate on the needs of new customers.

Our level of business in Turkey has expanded significantly and our agents there are moving to larger premises to cope with the volume of product now being transshipped. Positive effects from this increase in business should begin to be seen in our results this financial year.

### Overview

Trading revenues increased substantially in the half year, reflecting a rise in the numbers of products delivered to customers in Europe and Asia, and new Total Integration (customized motor engineering) projects beginning and progressing. Trading revenues exceeded \$3 million in the half year for the first time and were just over triple the figure recorded for the previous corresponding half year. We expect revenues from product sales and Total Integration programmes will continue to grow in the second half of the financial year.

Our Asian supply chain for ECR commercial refrigeration motors is operating satisfactorily. The first full production run of DD025 motors was completed in China in late January and China is now our principal source for finished versions of these motors.

### Financial Summary

The Company recorded a consolidated loss before tax and unusual items of \$2.6 million for the half year, slightly above the figure recorded in the previous corresponding half year (\$2.54 million). Increased revenues did not result in improved bottom line performance over the previous corresponding half year principally due to high transport and manufacturing costs from inventory made in Auckland along with abnormal costs associated with urgent deliveries. The benefit of transferring production activities to Asia should be seen in our financial results in the second half of this financial year, as well as continuing increases in engineering revenues from Total Integration programmes.

Receivables at the end of the half-year were \$2.4 million, substantially greater than the \$0.5 million shown in the 2005 Annual Report. The majority of these receivables were collected in January.

Inventories at the half-year were \$2.1 million, up from the previous full year figure of \$1.6 million, as we are carrying buffer stocks to mitigate the potential consequences of delays as we move over to production in Asia. Pre-launch stocks of two new electronic controllers are also being held as customers complete their evaluation trials.

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A Singapore-based logistics coordinator has been taken on to our payroll to improve information flow to subcontractors, given the level of business that we expect to be placing in Asia going forward.

### Licensing (Total Integration) Programmes

The second major income generating aspect of our business is design and development of specialized motor, electronics and software solutions for specific appliances. We call this service "Total Integration". The number of Total Integration designs in production, or at advanced stages of development, is increasing.

As reported previously, several new Total Integration programmes began during the half year, for companies in Europe and the United States. All of these projects are in high-volume areas of the appliance industry. During the half year two of these projects, entered the production engineering stage and are progressing well. One of these projects uses our new low-cost "Monsoon" controller. Development of this controller is proceeding on schedule and good results are being obtained.

Our licensee Arçelik A.Ş. (Turkey) has completed the major production engineering activities associated with the refrigeration compressor we developed with them. They have had some delays in completing the electronic controller for the compressor to full production readiness. Our team is currently assisting Arçelik with these remaining activities.

During the half year a license to produce a version of our ECR commercial refrigeration motor for sale in China was granted to the Changzhou Matchwell Electrical Products Company (Matchwell). Matchwell anticipates a good level of sales of the ECR product in China, where electricity savings are becoming a national priority. Sales should begin there this financial year.

Subsequent to the half year a further Total Integration project began with a new customer in the United States.

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Fixed assets declined slightly to \$1.4 million from \$1.5 million recorded for the full year, reflecting a reduction in our on-going investment activities as our overall product line stabilizes and more production is handled by subcontractors. Intangible assets, principally capitalized development costs, increased slightly to \$1.8 million from \$1.7 million at the full year, reflecting the stabilization of our own product line and a greater emphasis for engineering activities on contracted work for customers.

### Operational Review

Sales growth in the half year was limited by available production capacity. These pressures are now easing. Nevertheless, a good increase in revenues was achieved.

Volume deliveries of CH160 motor control units began early in the half year (in July) and have continued steadily. Higher-power variants of this controller (CH250 and CH350) were completed (CH250) and largely completed (CH350) during the half year and are now undergoing customer trials.

ECR commercial refrigeration motors were chosen by Sanyo Corporation for a major programme and a substantial number of ECR products and accessories were manufactured and delivered to Sanyo in October and November, as previously reported. Further small orders from Sanyo have been received, and ECR products have been ordered by, and delivered to, other companies manufacturing similar products.

Part of the order for ECR products from Sanyo Corporation was for a variant of the motor which was in the last stages of development when their order was placed. Development through to production was accelerated to meet Sanyo's requirements and some exceptional costs were incurred.

The first small orders for ECR products were obtained from Australia and New Zealand, related to the Australian Minimum Energy Performance Standards (MEPS) for commercial refrigeration products that were introduced last year.

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Most of our current Total Integration projects are variants of designs we already have in production. This reduces risks and helps progress to be more rapid than hitherto. Furthermore, all current projects are designs that use rare-earth neodymium-iron-boron (Neo) magnets, due to the price reductions that have come available for this material. We believe that Neo magnets provide greater advantages for Wellington designs than for alternative motor construction methods. The price reduction for this material is, potentially, of great significance for the overall development of our business.

The company's work with Neo magnets has been partly supported by the Foundation for Research Science and Technology.

### Outlook

As the first stage of expansion of our supply chain in Asia is now substantially complete, we are able to deliver increased volumes of products without extraordinary costs being encountered to the same extent as previously. Our principal objective for the second half of the financial year is to increase the level of forward orders to match the production capacity that we will shortly have available.

In February 2006 Dr. Giuliano Bertolazzi was appointed Director Sales and Marketing – Europe. He will supervise and expand the network of agents actively promoting and supporting our standard products in Europe.

Subsequent to the half year in January, Mr. Ray Cox, the company's head of sales, relocated to Singapore and has established a Wellington sales office there. This Singapore office will coordinate all Wellington's sales activity going forward. A first salesman for the Asian region, based in Singapore, was appointed in February.

As the recent sales record shows, interest in the company's products in the important North American market continues to grow. Several companies there have provided us with forecast requirements for products and we expect to make our first substantial deliveries to the United States before the end of the financial year.

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The increased interest in North America in energy efficiency, an important driver for our business, shows no signs of abating and indeed appears to be strengthening.

Discussions are continuing with a number of substantial companies in the United States with a view to expanding Wellington's presence there by partnering. We believe this is the most cost effective and efficient route for establishing the level of service that North American trade consumers require.

Most of Wellington's current sales are still within the premium segment of the appliance market. However, three of our current Total Integration projects are for products in the mainstream, non-premium, segment where volumes are higher. We believe that we now have the technical means to achieve prices competitive in the mass market with traditional, low efficiency motors. The first products designed to be cost-competitiveness in the wider market are expected to be ready for production during this calendar year.



Dr R. M Green, Director  
28 February 2006



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**WELLINGTON DRIVE TECHNOLOGIES LIMITED**  
**Consolidated Statements of**  
**Financial Performance**  
**for the six months ended 31 December 2005**

	Six months ended 31 December		Year ended 30 June
	2005	2004	2005
	\$000	\$000	\$000
<b>OPERATING REVENUE</b>			
Product sales, & fees	3,109	1,007	1,761
Royalty & licensing income	41	40	70
Interest income	75	111	247
Other income	64	35	7
Total operating revenue	\$3,289	\$1,193	\$2,085
Less cost of sales and other operating expenses	(5,894)	(3,736)	(6,975)
<b>Net Deficit before taxation</b>	(2,605)	(2,543)	(4,890)
Less taxation expense	-	-	-
<b>Deficit attributable to the Shareholders of Wellington Drive Technologies Limited</b>	(\$2,605)	(\$2,543)	(\$4,890)
Earnings per share (basic) cents	(2.91)	(3.47)	(3.27)

**Consolidated Statements of**  
**Movements in Equity**

	2005	2004	2005
	\$	\$	\$
Equity as at beginning of year	7,705	5,157	5,157
Net deficit for period	(2,605)	(2,543)	(4,890)
Increases in paid up capital	5,320	4,139	7,438
<b>Equity as at end of period</b>	<b>\$10,420</b>	<b>\$6,753</b>	<b>\$7,705</b>

There has been no change in accounting policies, which have been applied on the bases consistent with the previous year. These interim financial statements are prepared in accordance with Financial Reporting Standard no. 24 issued by the Institute of Chartered Accountants of New Zealand and should be read in conjunction with the Group's annual financial report for the year ended 30 June 2005.

**TRANSITION TO N.Z. INTERNATIONAL FINANCIAL REPORTING STANDARDS**  
The Company and Group intend to adopt NZ IFRS and report for the first time under these standards for the year ended 30 June 2007. The comparative financial statements will need to be restated and an opening position prepared using NZ IFRS as at 1 July 2005. As noted in the Group's annual report for the year ended 30 June 2005, the most significant changes expected to arise on conversion to NZ IFRS relate to deferred taxation and share based payments.

**WELLINGTON DRIVE TECHNOLOGIES LIMITED**  
**Consolidated Statements of**  
**Cash Flows**  
**for the six months ended 31 December 2005**

	Six months ended 31 December		Year ended 30 June
	2005	2004	2005
	\$000	\$000	\$000
<b>Operating cash flows:</b>			
Receipts from customers	1,489	1,090	2,016
Payments to suppliers & employees	(5,087)	(3,845)	(6,903)
	(3,598)	(2,755)	(4,887)
<b>Investing cash flows:</b>			
Purchase of fixed assets	(171)	(312)	(634)
Development costs & intangibles	(388)	(315)	(941)
	(559)	(627)	(1,575)
<b>Financing cash flows:</b>			
Cash from share issues	5,320	4,139	7,438
<b>Net increase/(decrease) in cash held</b>	1,163	757	976
Cash at beginning of period	3,242	2,266	2,266
<b>Cash at end of period</b>	<b>\$4,405</b>	<b>\$3,023</b>	<b>\$3,242</b>

**Reconciliation of Net Surplus to Operating Cash Flows**

	2005	2004	2005
	\$	\$	\$
<b>Reported net deficit after tax</b>	(2,605)	(2,543)	(4,890)
<i>Items not involving cash flows:</i>			
Depreciation & amortisation	503	322	778
Non current asset purchases accrued	(9)	4	(13)
<i>Add/(Less) working capital movements:</i>			
Receivables, tax & prepayments	(1,946)	(226)	(25)
Inventories	(494)	(327)	(878)
Accounts payable & accruals	978	39	191
Deferred rental income	(25)	(24)	(50)
<b>Net operating cash flows</b>	<b>(\$3,598)</b>	<b>(\$2,755)</b>	<b>(\$4,887)</b>

These half-year accounts have not been audited.

**WELLINGTON DRIVE TECHNOLOGIES LIMITED**  
**Consolidated Statements of**  
**Financial Position**  
**as at 31 December 2005**

	As at 31 December		As at 30 June
	2005	2004	2005
	\$000	\$000	\$000
<b>NON CURRENT ASSETS</b>			
Fixed assets	1,421	1,412	1,503
Development costs	1,785	1,254	1,672
Trade mark intangibles	34	-	-
	3,240	2,666	3,175
<b>CURRENT ASSETS</b>			
Cash on hand & at bank	146	97	123
Bank call/short term deposits	4,259	2,926	3,119
Receivables & tax	2,009	433	339
Prepayments	453	284	177
Inventories	2,118	1,073	1,624
	8,985	4,813	5,382
<b>Total assets</b>	<b>\$12,225</b>	<b>\$7,479</b>	<b>\$8,557</b>
<b>EQUITY</b>			
199,560,695 ordinary shares (Dec 04 - 148,449,156) (Jun 05 - 155,449,156)	36,436	27,816	31,115
Accumulated deficit	(26,016)	(21,063)	(23,410)
	10,420	6,753	7,705
<b>NON CURRENT LIABILITIES</b>			
	-	47	21
<b>CURRENT LIABILITIES</b>			
Accounts payable	1,099	355	430
Accruals, entitlements & provisions	659	273	350
Deferred rental income	47	51	51
	1,805	679	831
<b>Total funds employed</b>	<b>\$12,225</b>	<b>\$7,479</b>	<b>\$8,557</b>
<b>SHARE OPTIONS</b>			
As at 31 December 2005; five staff hold in total 700,000 options exercisable on 8 September 2006 (or within 30 business days of that date) at 57.35 cents; six staff hold in total 1,600,000 options exercisable on 29 November 2007 (or within 30 business days of that date) at 52.83 cents; and four staff hold in total 500,000 options exercisable on 28 October 2008 (or within 30 business days of that date) at 40.5 cents. The stated exercise prices have been adjusted for the effect of the cash issue in November/December 2005 in accordance with the terms of the Wellington Employees Share Option Plan. No options are quoted on N.Z. Stock Exchange.			