



## Wellington Drive Technologies Ltd 2006 Annual General Meeting Address

Shawn Beck, Chairman

Firstly, I would like to summarize the Company's last twelve months trading and its outlook. Then I'll hand over to Ross Green to talk to you in some more detail.

Firstly, our financial results. For the year to June 2006 the Company recorded operating revenues of \$6.9m, more than triple the prior year. Although this translated into only a small decrease in the loss for the full year, achieving a meaningful level of sales for the first time is, Directors believe, an important milestone in the history of the Company.

Final assembly of all our motor types is now carried out in Asia. Although it has taken some time to bed in the operations there, quality levels are excellent. Positive effects from the transfer are beginning to show through in our production costs, although we are not yet seeing the full benefits; there is much more improvement to come. Activities there are currently being expanded to include finishing of motorized fan assemblies, which will bring further production and logistics costs savings.

Notably, the contract manufacturing arrangements we have established in Asia are suitable for scaling, in stages, to produce numbers in the millions.

We have continued to invest in our own product development, in-market sales and marketing, distribution, production and stock. Costs were higher than last year reflecting these actions.

Stock on hand at year end was \$2.7 million, an increase on the previous year's level of \$1.6 million. We continue to take a conservative policy with stock, to reduce the risks of interruption of supply to customers as we refine and adjust our production and logistics arrangements.

In summary, our financial results for 2006 show that we are beginning to service the market on a more substantial scale, and have obtained and are supplying some orders of moderate volumes. In fact, over 200,000 motors of all types were delivered by the Company over the past year. Today our motors are found in building ventilation and heat recovery equipment, air conditioners, commercial refrigerators and freezers, vending machines and other equipment.

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Encouragingly, almost 300 samples were delivered to 47 new companies during the year. This is a good sign of business to come, and we expect to obtain good orders from many of these new prospects. In fact, some have already placed small orders.

The second major aspect of our business is special, application specific designs, and licensing. Inherent characteristics of our technologies allow us to provide custom designs that can be integrated into the end appliance (saving cost and providing design flexibility). We call this “Total Integration”.

The Total Integration area of our business is developing well. Currently, we have seven Total Integration projects at various stages of development, for customers in Europe and the United States, with several additional projects in negotiation. Our motors are being prepared for a wide range of appliances including rangehoods, dishwashers, ceiling fans, refrigerators, dryers, air conditioners and gas boilers. Workloads on these projects tend to be irregular, however. Our revenues from customer development work more than doubled last year to \$540,000, although the increase was less than we hoped to achieve.

There is currently good, and growing, demand for our Total Integration offering. Our engineering team divides its time between our own developments and work for customers. All of the new products we are working on are designed to be produced in high volumes with production levels of more than 300,000 units per year being expected in each case. Some of the projects anticipate production volumes in the millions of units per year.

We expect to see Total Integration projects provide good returns through engineering fees, license fees and royalties over the medium term, as well as from supply of components to licensees. This interest is beginning to expand to cover not only motor-related components, but also other components, as customers look to reduce the number of suppliers and become more comfortable with buying from Wellington.

Our technical team continues its record of excellent work keeping the pipeline of future product enhancements full. This is crucial in securing the Company’s longer term competitive position. In particular, good progress has been made with new designs that we believe will eventually be cost-competitive with more traditional, low cost mass market motors, while offering considerable advantages in energy saving, overall system costs and low noise. The first products using these new



methods are now nearing production. I can't over-emphasize the medium term importance of being able to position our products to compete effectively in the mass market.

In summary, good growth in sales was achieved during the year and the company is beginning to deliver substantial numbers of products. The supply chain infrastructure that has been established over the past two years is shaking down well and manufacturing costs are reducing. We confidently anticipate that sales will continue to grow and manufacturing costs will continue to reduce. A number of initiatives are in progress to achieve these objectives.

I'll now hand over to Dr Green to speak to you regarding some of the Company's more specific plans and targets.

Ross Green, Managing Director

Thank you, Mr Chairman.

Welcome to the meeting. It is good to see so many shareholders here today.

2006 was a better year for us on the operating front. We delivered substantially increased numbers of products compared to previous years. Order flow and deliveries were more regular than in the past and this gave our operations team something solid to work with. Good improvements in production and logistics cost were achieved, although we expect to see more substantial improvements.

Currently we are able to keep up with demand. However, requests and enquiries for our standard motorized fan products continue to grow. Customers are beginning to discuss, and place, larger orders and we will be continuing to expand our production and delivery capabilities, in stages, to keep ahead of demand.

Several years work has gone into establishing Wellington as a recognized supplier to the marketplace, particularly in Western Europe, to a lesser extent in the United States and, more recently, through some initiatives in selected Asian markets. More companies are now prepared to do business with us. As Shawn said, last year we delivered 300 samples to 47 new companies. I doubt that I can stress enough how important this sampling process is. This early activity is a first step towards new business, and some of these new prospects have already placed orders.



We believe that the proposed new investment, that we will be considering later today, has already had a positive effect on the way existing and prospective customers view us. Several have said that they will now be more comfortable placing larger orders with us.

So we are becoming well placed, with good products that perform reliably, and a growing reputation as a company that can be trusted to deliver on time.

Recognizing that, earlier this year we began to expand our sales efforts, through new appointments in Europe, and by establishing our own sales office in Singapore to coordinate activities. We will be emphasizing sales efforts considerably over the coming months, particularly by adding more “sales engineers”, based near customers, who can help speed the adoption and approval processes. Sales engineers have been amongst the most successful Wellington initiatives so far; customers greatly appreciate the service and, in turn, this reduces the time from first contact to meaningful orders.

One of our major objectives now is to shorten the customer adoption cycle, and we believe that our team of sales engineers will do that.

Our current products are already strongly competitive in the market and are beginning to win a good level of sales. However, I spoke to you last year about our new family of products – code named “Monsoon”. We are confident that Monsoon can deliver quiet, electricity saving motors at prices that are – for the first time - truly comparable to low efficiency induction motors. That is what customers want. Development has proceeded well, and the first Monsoon-based products are nearing completion. I have two examples with me today. We believe that our Monsoon products lift our competitive advantage still further and allow us to bring electricity-saving benefits to the mainstream motor market.

Monsoon achieves its goals by using greatly simplified electronics hardware. It also uses still less material than standard Wellington motors, which already save material compared to common, low efficiency motors. The tradeoff is that its software is highly sophisticated. In production, though, software costs very little. The complexity of the software also makes Monsoon difficult to copy.

Turning now to another subject, Wellington motors save materials. Our motors require significantly smaller amounts of copper and steel to achieve the same, or better, performance than common, low efficiency motors.



The slide shows a comparison between motors used in refrigeration compressors. I hope you can see the large difference in size between the conventional induction motor on the left, the Wellington motor using ferrite magnets in the centre, and the advanced Wellington motor that uses high strength neo magnets on the right. These size differences translate into improved costs and we believe we have a major advantage in this respect. We see the same benefits in motors for other appliances as well.

Saving material is a subject of great current interest to our customers in the appliance industry. If you follow commodity prices at all, you will know that prices for copper reached an all-time high of over \$US8 per kilogram earlier this year, more than three times the level of only two years ago. Steel has also more than doubled. Consequently, right at the time where we have developed a new way of reducing the costs of our motors still further – with Monsoon technology – the costs of the low efficiency motors that we compete with have been forced to rise.

Cost is undeniably the most important item in the markets in which we work, which is why we focus on it so much. However, let's be clear that electricity-saving performance commands a premium, and the value of electricity saving performance in small motors is becoming increasingly recognized.

I don't know if you give it much thought, but there is a huge amount of equipment associated with delivering electricity to consumers – as shown by this diagram. The equipment is large and expensive, and the delivery process is far from perfect. Expensive energy is lost all the way down the chain, firstly at the power station itself and then in the substations, transmission lines and transformers. Electricity used by consumers is right at the top of a long and expensive food chain; waste at the consumer end means even more waste upstream..

Now most of you will be aware of the international debate concerning possible climate change. International efforts to constrain the emissions of carbon dioxide, which is implicated as a major possible cause of climate change effects, are also being debated.

You might wonder why I turn suddenly to climate change? As this slide shows, however, Wellington's motor technology could have a major positive effect on the electricity consumption, and carbon dioxide emissions, of an economy like the United States. In the USA, more than half their electricity is generated by coal-fired power stations, with many of these stations being inefficient designs more than 40 years old.



As the diagram shows, there are at least 500 million inefficient, small motors in service in the United States alone in exactly the types of appliances that Wellington targets. Please note the actual figure is thought to be several times larger. These 500 million motors waste roughly 80% of the electricity that is expensively supplied to them. Better motors could conservatively save electricity worth \$US10 billion every year, save 30 million tons of coal each year and stop the release of 60 million tons of carbon dioxide into the atmosphere every year.

60 million tons is a substantial amount of emissions to cut. To put it in perspective, it is the same as taking around 20 million cars off the road. It is also around the total carbon dioxide emissions of at least 3 million Americans.

Reducing the electricity consumption of small electric motors is one of the easiest and most cost-effective ways of reducing emissions. Consequently, we believe that there is likely to be an increasing focus on regulations demanding improved efficiency performances from small motors over the coming years. Furthermore, with our new Monsoon technology, we believe we have a significant competitive advantage over other types of motors.

More appliance manufacturers are showing interest in specific Total Integration designs for electricity-saving motors. We expect to see demand for Total Integration projects to continue to increase, so we are focusing on ways to reduce development times. Some of the proposed new investment will be devoted to improving facilities that will increase the output of the engineering team that we already have in place.

This has a dual effect: firstly, we expect to reduce the cycle time from development to production, which will enhance revenue growth; secondly, we will be able to handle more projects simultaneously, which will also enhance revenue growth.

Our plans to enhance our development facilities and services have been shared with some of our main customers and the response has been good.

Our ability to design cost-effectively and implement special motors and controls for appliances is a major differentiating factor for Wellington's technology when compared to conventional motor construction processes. Our methods enable the integration of a motor, electronics and software with the end appliance. This helps reduce overall product component count, and costs, while improving



performance and enhancing industrial design flexibility. Our customers tell us that no other company currently offers a similar service to Wellington's Total Integration. We expect that our enhanced financial strength, and improved facilities, will encourage more customers to explore the benefits that Wellington could provide to them.

Our internal development program continues to emphasize methods for reducing costs. We have several techniques, in addition to Monsoon, that we are exploring that will reduce costs still further. Some of these involve new materials and have exciting possibilities. Our team filed for three new patents earlier this year.

In addition, with the availability of low-cost, electricity saving motors finally in sight, some customers are asking us to move our premium products further up-market in terms of features and performances. You may recall that I have often said to you that top-end products tend to make up about 15% of the overall market. Once electricity saving becomes a mainstream feature, the top end still needs differentiation. I don't propose to say too much about what we are planning there today, although data handling features figure heavily in our plans and we believe that this will eventually move Wellington's products into new market categories. We believe that additional data handling features will become important in electric motor products in the future, opening new ways of saving electricity, maintaining performance as appliances age, helping enable new electricity pricing strategies and facilitating many other new services.

In summary, it is satisfying to report that we now have a good record of delivery to stable, long term orders. Our supply efficiencies are improving and the outlook is strongly positive.

Our main objective is to continue to grow revenues and production volumes. Initiatives that we currently have in progress will yield substantial reductions in production costs and we will see some benefits from those initiatives coming through within the current financial year.

Thank you.



Shawn Beck, Chairman

I want to take a little time to cover the background to the Special Business to be discussed today, namely the proposed investment by Source Vortex in the Company. The meeting has a number of resolutions to consider to give effect to this investment.

As announced to the NZX on 5th October, Wellington has entered into a Subscription Agreement with Source Vortex, LLC (United States). The key terms of the Subscription Agreement are disclosed in the Notice of Meeting that you have received. In summary, Source Vortex will subscribe for 100 million ordinary shares, which is a 33.4% stake in Wellington, at \$0.40 per share. This will raise approximately \$38 million after costs and fees. 35 million warrants will be issued to Source Vortex at an exercise price of \$0.60 per share. The warrants can be exercised if the weighted average of the Company's share price reaches, and remains at or above, \$1.20 for a continuous 20 day trading period during the two years after issue of the warrants. Two nominees of Source Vortex will also be appointed to Wellington's board.

Those nominees are Michael Jude Lopitz and Aubrey Hornsby, both principals of Source Vortex, and they are with us today.

These gentlemen have substantial experience with sales, marketing and technical development, within both small and substantial businesses. They bring a good contact network in Wellington's marketplace in North America – with existing and prospective customers, in regulatory and political circle and in the wider investment community. Furthermore, they have a high profile within the growing section of the investment community in the United States that is focusing on environmentally sustainable developments. Your Directors believe that the active involvement of Source Vortex with Wellington will significantly enhance Wellington's development, and profile, in the important North American markets. In fact, this is already happening.

Mr. Lopitz has owned and managed successful businesses in energy resources, real estate, scientific R&D and the wellness industries. Mr. Hornsby has a background in merchant banking and the media industries. Further information about Source Vortex and its principals is provided in Attachment 1 to the Notice of Meeting.



Earlier today, Ross Green and I mentioned that interest in Wellington’s technologies and product offerings is continuing to increase. We believe this is part of a wider trend of general interest in new technologies that promote efficient use of resources – termed “sustainability technology”. Sustainability technology is the focus of high and growing levels in the United States, and is believed to be growing rapidly in government circles in China.

As I mentioned earlier, Source Vortex’s principals have a good profile within the sustainability investment community in the United States, and their involvement with Wellington is expected to be valuable as we seek to communicate Wellington’s sustainability benefits to the wider community. This should assist near-term sales growth, particularly in North America, and may help broaden the Company’s potential investor base.

Importantly, the development of our business will be accelerated and enhanced by additional investment in certain areas, particularly in additional sales and support infrastructure in our off-shore markets and in plant and other initiatives aimed at reducing production costs.

There are three main thrusts for potential additional investment, all with the objective of accelerating sales and earnings growth:

Firstly, we intend to appointment additional sales staff and application engineers in overseas markets, along with other initiatives to drive sales growth. In parallel, some further investments will be made in manufacturing methods and improved logistics to reduce product costs. Thirdly, we are planning to enhance Wellington’s range of products and services. This involves some modest investments in facilities to reduce development timescales, accelerating our programme of new product development and continuing and expanding the company’s core technology development activities to maintain competitiveness.

In summary, Directors believe the successful conclusion of this transaction will lift the Company to a new level. Directors strongly believe that a significant level of new capital, combined with experienced and “in-market” input, will greatly accelerate the Company’s short and medium term sales and earnings growth.

As outlined previously, additional funding will allow the Company to greatly accelerate its sales, development and production cost reduction efforts.



The significant level of funding will also provide confidence to the conservative marketplace we are targeting that the Company can be relied upon to be a long term supplier. Our experience over the past three years has shown that Wellington is yet to completely leave behind the “proving” stage of development in the eyes of a significant proportion of our existing and potential customer base. Wellington’s distant location, its small size compared to the established motor companies it currently competes with, and Wellington’s perceived lack of balance sheet strength, are exacerbate the inherent conservatism of our customer base. We believe that these factors have held Wellington back from achieving higher sales growth, and would continue to restrict growth in the future. Hence, Directors strongly believe that the proposal being put before shareholders today will remove the last impediments to Wellington being “proven” in the eyes of its overall target marketplace, leading to accelerated sales growth.

Importantly, the input of an interested shareholder, whose principals are experienced and well-connected in a wide range of areas which are relevant to Wellington’s success, should provide even more acceleration to the Company’s sales and earnings growth.

Hopefully, you will have all read the report by Grant Samuel. It should be highlighted that Grant Samuel, as Independent Advisor, are only required to “assess the merits” of the proposal, as opposed to providing a conclusion on its “fairness”, as is common in takeover bids. It is pleasing to note that Grant Samuel’s views of the merits of the proposal are largely consistent with your Directors’ views.

The Directors of Wellington unanimously recommend shareholders vote in favour of the resolutions which give effect to the proposed investment. Directors and interests associated with Directors are all voting in favour of the resolutions, accounting for 19.8% of the Company’s outstanding share capital.

We will now move to the resolutions themselves.