

29th August 2007

Media Release

For Immediate Release

Report of the directors and chief executive to the shareholders

Overview

Commercial activities increased significantly in the year to 30 June 2007. Particularly notable in the second half of the financial year were the first major shipments to the United States of our “ECR” electricity-saving motors for supermarket and vending refrigeration systems. The first shipments of clean room fan-filter unit motors for semiconductor plants also took place. Total operating revenues, excluding interest, were \$10.7 million up 60% on the comparable period, with revenues in the second half of the year up 93%. We have focused on driving standard product revenues and volumes to improve economies of scale and reduce manufacturing costs, and to continue to enhance the Company image in major markets: the excellent performance in service that our products deliver is the greatest aid to further sales of products, and related services, in this conservative marketplace. This approach is beginning to yield worthwhile results: standard product revenues climbed by 73% for the full year, including an increase of just over 100% in the second half. In comparison, services revenue, made up of engineering revenue and license fees, fell short of the results hoped for and was down 45% for the full year.

Several major Total Integration contracts with excellent medium-term prospects are in progress, although the process of contracting these under terms that yield short term revenues has proved protracted. Nevertheless, progress on the contracts front is being made as evidenced by recent announcements, and increasing revenues will be recognized in the new financial year.

We shipped products to customers in 18 countries during the year. Samples were delivered to 86 prospects in 22 countries, reflecting the growing interest in our standard products and the increasing reach of the Company’s sales activities.

During the year we were pleased to add Hill Phoenix (the #2 manufacturer of supermarket chilled display equipment in the USA) and Kroger Corporation (the #2 US supermarket chain) to our refrigeration customer list. The first deliveries of refrigeration motor products were also made to Mexico, Australia and Poland. The Mexican refrigeration industry has been highly successful in recent years selling to the United States and Canada under the North American Free Trade Agreement (NAFTA), and we expect the development of our business there to mirror our experience in Turkey. Our business in Turkey continues to expand, based on steady business with the leading refrigeration companies Ugur and Klimasan there. The refrigeration industry in Turkey has been successful in obtaining a growing share of commercial refrigeration sales in Europe. Our first sales of refrigeration products in Scandinavia were made during the year. After the financial year end the first orders were placed by Federal Industries Inc. of the United States. A large order has just been placed by another major North American company for ECR motors, and further details of that order have been released in an accompanying announcement. All of these customers were engaged with us for extended periods in testing and evaluation programmes, and the revenues booked in the 2007 financial year



represent only a small proportion of annualized potential of these accounts, given present confirmed order levels. We also expect growth beyond the current run rates, as our products are adopted more widely throughout the product ranges of these companies.

Sales of products for heat recovery and domestic ventilation systems, mainly to The Netherlands and Belgium, increased by 58% during the year. However, the growth was less than hoped.

The June 2007 1:3 rights issue raised \$7.6m and was completed successfully with application for oversubscription in excess of 20%.

As previously announced, our acceleration plan was initiated in the first half of calendar 2007, and continues through to early 2008. The acceleration plan entails a substantial increase in sales and sale support personnel in international markets, together with improvement of the Company's rapid prototyping facilities to speed engineering development and enhance the revenue-generating capability of our engineering team. Progress is on track in all areas with sales appointments made in the United States, Turkey, Singapore, Italy and Mexico, and the rapid prototyping capability delivering the first tangible results in the final quarter of the financial year. The increase in sales headcount in-market has substantially lifted customer inquiry levels, particularly in the last quarter of the financial year: the new sales appointments were in post in time to make an impact before the Northern Hemisphere summer vacation period, which was most pleasing. Response times and customer service levels have improved significantly with the new appointments, enabling a wider range of customers and prospects to be addressed.

Technology research and development continues at a similar pace to the previous two years, with the focus shifting to product commercialization, total integration customization and cost reduction. This area has already benefited noticeably from the infrastructure investments, with completion time on major internal developments reducing markedly compared to previous years. The time to introduce cost-down measures to production has also reduced substantially, particularly in the last quarter of the financial year, with benefits on margin already beginning to show through. We expect both these trends to continue. The Company continues its core materials science, motor control and control software research foci.

Several new patents were issued during the year. The first filings for three new patent families, covering certain motor control and motor manufacturing techniques, were also made during the year. These applications are now being pursued internationally under the Patent Cooperation Treaty (PCT).

Financial Review

Group revenue was up 60% to \$10.7 million, with product revenues up 73% to \$10.2 million and engineering and license revenues down 45% to \$0.3 million. Other revenue lines, mainly grant income, were steady at \$0.2 million.

The consolidated loss before tax was \$6.3 million for the year to June 2007, up from \$4.5 million in the previous period. Operating Loss was \$5.9 million, up from \$4.9 million in the year to June 2006. This was \$0.5 million higher than we were forecasting earlier in the year due to three principal factors: the higher New Zealand dollar reducing margin improvement, a small write-off of stock not fully compliant with the European Reduction of Hazardous Substances (ROHS) regulations and overheads slightly higher than forecast earlier in the year due principally to early success in recruiting overseas sales personnel.

The overall 2007 loss before tax was adversely impacted by \$0.7 million due to unrealised revaluation of US dollar denominated assets, namely cash and receivables. Currency movements reduced our reported revenue growth, and decreased margins as – despite most sales being Euro and US dollar denominated and most components and materials being purchased in US dollars – we carry our stock on our books in New Zealand dollars. The exposure to exchange rate variances will decrease as the headline revenue figures continue to improve, and stock and receivables ratios to revenue improve in turn.



As noted above, the unfavorable movements in the New Zealand dollar impacted margin improvement, particularly in the last three months of the financial year, as a steadily climbing New Zealand dollar against the US dollar resulted in stock being bought at a less favorable rate than when billings were made. Nevertheless, product margins still improved markedly during the year in New Zealand dollar terms, though the fall in engineering revenues and the stock write off of non-compliant ROHS materials reduced total gross margin improvement below our targets. Despite these impacts, gross margins were significantly ahead of the prior year, and we expect the improvement to continue.

Overheads continue to be managed well throughout the Group and ended the year exactly per our plans – an increase of 40% over the prior year, with spend outside New Zealand doubling and New Zealand based costs managed to less than a 20% increase. The higher New Zealand dollar had a small favorable impact in this area, given the growth in staff costs in the United States.

The Company marginally increased its net capitalization of development assets, which it expenses through Operating Expenses, by \$0.1m during the financial year as research and development efforts continues in line with the level of previous years.

Cash balance at year end was \$13.1 million (excluding application funds for oversubscription of \$1.6m returned in July 2007). Year end cash benefited from some improvement in working capital.

Stock on hand at year end was \$3.5 million, up from \$2.7 million in the prior year, but down from \$4.2 million at 31st December 2006 as reported in our Interim Result. This highlights the lumpy requirements of working capital as the company works through early growth of new accounts and product lines. Receivables were steady at \$2.5 million and creditors up \$0.3 million on the prior year to \$1.6 million.

Net Fixed Assets increased during the year to \$2.2 million, primarily due to execution of the engineering and rapid prototyping investments of our acceleration plan. The majority of fixed asset spend for the acceleration plan has now been made and is expected to be completed by the end of the 2007 calendar year.

The Growing Business

Acceleration Plan

Expansion of Sales Activities

The key focus of the acceleration plan is to increase the level of sales activity, and conversion of sales leads to revenue, across the Company's target markets. In the last 12 months the total Company headcount increased from 53 to 72, including 5 full time paid agents. Of the increase of 19, 15 were international, with 11 being sales and sales support staff. The company now has 20 staff outside New Zealand and a total sales team of 19.

The main result of this increase has been a substantial lift in direct customer activities (visits, sample programs, leads).

As well as having subsidiaries in the United States, Turkey, Italy and Singapore, the Company also has in-market presence in the UK, The Netherlands and Mexico.

Completion of Investment in Engineering and Rapid Prototyping

Key milestones have been reached in the investment in engineering and rapid prototyping program, with the Auckland facilities completed close to planned time scales and within budget. This investment significantly enhances the engineering team productivity; the Board and management believe this gives Wellington a useful competitive advantage.

Working Capital

Though the year ended well in terms of working capital usage, this was mainly a timing issue, with stock balances down due to the natural order and delivery cycle, in addition to careful management. Over the medium term we expect that the cash requirements around working capital will show a



relative improvement compared to revenues, although investment in working capital will remain substantial for some time.

Manufacturing Improvement Programme

Margin improvement during the year in US Dollar terms was significant, although the full effects are not seen in our results, due to the movements in the New Zealand dollar as noted above. The improvement is the result of a major and on-going programme of cost reduction activities, initially focused on our air movement products (predominantly sold in Europe) and now beginning across our refrigeration product lines. Activities across this area have been coordinated by our Design for Manufacturing and Assembly ('DFMA') team based in Singapore and Auckland.

The ability to place steady, and growing, orders into our Asian contract manufacturers over the past few months has greatly assisted the progress of cost-down initiatives overall, and has been helpful to our medium and longer term production planning discussions with suppliers and subcontractors.

We expect to see good progress on cost reduction continue in the second half of calendar 2007 and beyond. Much scope remains for manufacturing costs to be reduced along with improved purchasing opportunities as production volumes increase.

Sales Success

Sales growth has been pleasing with a strong performance in the second six months. Most notable were our refrigeration product lines, in particular the ECR electricity-saving product line for commercial refrigeration was up by 70%. The ECR range continues to build on solid sales established in late 2005, and since early in calendar year 2007 sales have become more regular. We expect to see a continuation and acceleration of ECR sales with 44 companies ordering ECR samples during the year.

The Company delivered in excess of 350,000 motors in the 12 months to end June 2007, a 75% increase on prior year. We have now shipped over 700,000 motors in aggregate, and we expect to ship our millionth motor during the 2007 calendar year.

Operational Review

With the shift of the majority of production capacity to Asia, the supply chain is now stable, and additional orders are providing the Company with some improvements in buying power. We are currently reviewing our arrangements for manufacturing stators, a key part of all our motors and the component in which a substantial part of our intellectual property (IP) is embodied. The key objective with stator manufacturing is to offer a flexible manufacturing service to customers, while achieving scale economies and enhancing the protection of our IP. The first stages of the review have been completed, and proposals for future stator manufacturing plans will be presented to the Board soon.

We are currently engaged on major development programmes with several of the world's leading appliance and appliance component manufacturers. As reported previously, most of these programmes envisage Wellington-based products produced in several million units annually and have substantial medium and long term revenue and profit prospects for our company. However, the contractual negotiations associated with these contracts have proved to be both difficult and protracted, principally due to the novelty of both the products being developed and the variety of commercial arrangements that may be appropriate for delivering them. Concluding several of these arrangements to the point where revenues were yielded during the financial year just completed proved elusive, and was noticeably impacted by the diversion of management time associated with the failed investment by Source Vortex in the first half of the financial year. We have chosen, in discussion with our customers, to continue work on some of these contracts – in effect at our own risk – in advance of full commercial agreement, and we anticipate that decision will ultimately improve the yield from these contracts and our level of ownership of the products and technology that is being developed. Since the financial year end, negotiations were concluded regarding the next major stage of development of one of these programmes, resulting in the placement by the customer of an order for a substantial amount of engineering work that will be completed (and deliver revenues) during the



current financial year: we expect the experience with the other programmes will be similar. For reasons of commercial confidentiality, details of these programmes cannot be released.

Marketplace

Carbon Emissions and Sustainability

We are working to develop clear messages concerning the potential environmental and sustainability advantages of our electricity-saving motor technologies. Interest in the electricity savings that improved motors offer in high and continuous use applications (like commercial refrigeration and domestic ventilation) continues to grow, and there are some signs that a wholesale switch to electricity saving motors in commercial refrigeration may soon start. Under the Kyoto protocol there are arrangements whereby electricity saving products, such as motors, can attract carbon credits and those are being investigated.

Accounts

Balance Date

In order to better align our sales cycle with the operational management of the Company, the Board and Management is investigating a change of Corporate balance date from 30 June to 31 December. A request is currently in progress with the Inland Revenue Department as the normal first step in the process.

IFRS

The Company will implement NZ IFRS accounts starting in the new financial year, with the year to 30 June 2007 as comparative.

Development

In the last quarter of the financial year we released for sampling our first products that use our new “Monsoon” motor, electronics and software system. The Monsoon system offers the electricity-saving performance that is increasingly becoming in demand for many basic light industrial and domestic appliances – at a price point that we believe to be acceptable for mass-market adoption. Some early orders for Monsoon-based products have been received since the financial year end.

In line with customer requests, the engineering team has been developing several enhancements to our current ventilation products range, focusing particularly on features needed for premium market segments including a variety of software-based facilities and performance enhancements. Some work has also been devoted to packaging some of our products in a way suitable for specific market segments that we do not currently address.

Several projects that introduce new manufacturing technology to enable cost reduction are nearing conclusion and are expected to be released to manufacturing during the current financial year. These involve both new materials and/or new processes and some are the subject of patent applications. Further initiatives in the general area of manufacturing cost reduction are planned.

Several extensions to the basic Monsoon system have been investigated, and some are currently being tested. We have several initiatives planned for further development of the Monsoon technology, with the intention of expanding the range of applications it can usefully service, enhancing its performance and reducing costs. We expect this work to yield further patent applications in due course.

Outlook

With the increase in the sales force establishing a stronger and more visible in-market commercial presence, the bedding down of the investments in engineering and rapid prototyping, and the strong progress of cost down and product development initiatives, the Company is well placed for continuing rapid growth.



Revenues are expected to increase significantly and, though they will continue to become more predictable (as seen over the past two years) as the customer base develops, volatility will remain as new customers are introduced and the order profile continues to evolve.

The Company will continue to add to the international sales force, to expand its cost reduction initiatives and its logistics capacity and to build its manufacturing capability, particularly around its novel stator technology. It is also planning to invest in system improvements for customer management, supply chain visibility and financial control.

Good sales growth was achieved in the last year and, overall, prospects continue to improve. Although future results remain difficult to predict with any certainty, Directors believe that the Company will move into profitability in the second half of the 2008 calendar year. The prospects for profit growth beyond that remain substantial.

Directors

Nominations for directors are invited in accordance with Listing Rule 3.3.2. Nominations should be sent to the Secretary, Wellington Drive Technologies Ltd, PO Box 302 533 North Harbour, no later than 26 October 2007.

Annual Meeting

The date and place of the Annual Meeting will be advised. The Annual Report will be available in the last week of September 2007.



Wellington Drive Technologies Limited
Consolidated Statements of
Financial Performance
for the 12 months ended 30 June 2007

(unaudited)	Year ended 30 June 2007 \$NZ'000	Year ended 30 June 2006 \$NZ'000
Revenue		
Product sales & fees	10,549	6,423
Royalties & licensing income	58	74
Interest income	301	184
Grants	149	166
Exchange gains	102	214
Other income	16	0
Total revenue	11,176	7,062
Less Cost of sales and other operating expenses	(17,438)	(11,591)
Net Deficit before taxation	(6,262)	(4,529)
Less Taxation expense	0	0
Deficit attributable to the shareholders of Wellington Drive Technologies Limited	(6,262)	(4,529)
	0	0
Earnings per share (basic) cents	(2.88)	(2.53)

Wellington Drive Technologies Limited
Consolidated Statements of
Movements in Equity

(unaudited)	Year ended 30 June 2007 \$NZ'000	Year ended 30 June 2006 \$NZ'000
Equity as at beginning of year	8,470	7,705
Net deficit for period	(6,262)	(4,527)
Increases in paid up capital	19,405	5,319
Equity as at end of period	21,613	8,497



Wellington Drive Technologies Limited
Consolidated Statement of Financial Position
for the 12 months ended 30 June 2007

(unaudited)	Year ended 30 June 2007 \$NZ'000	Year ended 30 June 2006 \$NZ'000
ASSETS		
CURRENT ASSETS		
Cash on hand & at bank	12,219	1,604
Bank short term deposit	2,525	89
Receivable, tax & prepayments	3,013	2,345
Inventories	3,579	2,693
	<u>21,336</u>	<u>6,732</u>
NON CURRENT ASSETS		
Fixed assets	2,244	1,530
Development costs	2,495	2,059
Trade marks	62	37
Other intangible assets	62	0
Other non current assets	59	0
	<u>4,922</u>	<u>3,626</u>
Total Assets	<u>26,258</u>	<u>10,358</u>
CURRENT LIABILITIES		
Accounts payable & accruals	3,007	1,840
Shareholder oversubscriptions	1,638	
Deferred landlord rental charges	0	22
	<u>4,644</u>	<u>1,861</u>
EQUITY		
Paid in capital	55,806	36,435
Accumulated deficit	(34,177)	(27,938)
Foreign currency translation reserve	(16)	0
	<u>21,613</u>	<u>8,497</u>
Total funds employed	<u>26,258</u>	<u>10,358</u>

Issued Securities
for the 12 months ended 30 June 2007

ORDINARY SHARES (Quoted on NZX):

Issued at beginning of full year	199,560,695
Issued during current full year:	
Dec 06 placement	30,000,000
Jun 07 rights issue	76,520,232
Issued at end of half year	<u>306,080,927</u>

OPTIONS (Unquoted):

	Issued	Exercise Price	Expiry Date
Issued at beginning of full year	700,000	57.35	30-Oct-06
	1,600,000	43.99	29-Nov-07
	500,000	31.66	28-Oct-08
	<u>2,800,000</u>		
Issued during current full year	4,900,000	50.38	27-Apr-10
	2,000,000	49.39	30-Jul-10
Lapsed during current half year	(700,000)	57.35	29-Nov-07
	<u>9,000,000</u>		



Wellington Drive Technologies Limited
Consolidated Statements of
Cash Flows
for the 12 months ended 30 June 2007

(unaudited)	Year ended 30 June 2007 \$NZ'000	Year ended 30 June 2006 \$NZ'000
Operating cash flows:		
Receipts from customers	10,524	5,376
Interest received	301	184
Interest paid	(77)	
Payments to suppliers & employees	(16,374)	(11,118)
	<u>(5,626)</u>	<u>(5,558)</u>
Investing cash flows		
Purchase of non current assets	(2,274)	(1,309)
Loan to associates	(59)	
	<u>(2,333)</u>	<u>(1,309)</u>
Financing cash flows:		
Shareholder oversubscriptions	1,638	0
Cash from share issues	19,371	5,319
	<u>21,009</u>	<u>5,319</u>
Net increase / (decrease) in cash held	<u>13,050</u>	<u>(1,548)</u>
Cash at beginning of period	1,694	3,242
Cash at end of period	<u>14,744</u>	<u>1,694</u>

**Reconciliation of Net Loss After Tax
To Cash Flow From Operating Activities**

Reported net deficit after tax	(6,262)	(4,527)
<i>Items not involving cash flows:</i>		
Depreciation & amortisation	1,033	851
Loss on disposal of fixed assets	5	1
Asset purchase accrued	0	6
<i>Add / (Less) working capital movements:</i>		
Receivable, tax & prepayment	(668)	(1,829)
Inventories	(886)	(1,069)
Accounts payable & accruals	1,167	1,060
Deferred rental income	(22)	(51)
Foreign currency translation reserve	7	0
Net operating cash flows	(5,626)	(5,558)



For further information visit www.wdtl.com.

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