



29th February 2008

Wellington Drive Technologies Ltd

Results for announcement to the market

Reporting Period: 6 Months to 31 December 2007 (unaudited)

Previous Reporting Period: 12 months to 30 June 2007

Key Points

- Revenue up 28% to \$5.1m for the six month period to 31 December 2007;
- Reported loss in line with Company expectations at \$3.9m, up from \$2.9m for the comparative six months;
- Total Integration success accelerates, two new programmes commenced; Company currently working on five Total Integration programmes;
- All current Total Integration programmes have potential volumes in excess of one million units per year at full commercial release, with some expected to reach several million units per year;
- Post balance date investment of \$12.8m from UBS's Global Innovators fund to help Company further accelerate; and
- Expected break even in the second half of 2009, strong growth expected over the ensuing years.

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Report of the directors and chief executive to the shareholders

Overview

This announcement covers the 6 month period from 1 July 2007 to 31 December 2007. Wellington Drive Technologies Ltd ('Wellington') has changed financial year end to better align commercial activities and financial management with the sales calendar of customers. Unless otherwise stated, all figures are in New Zealand Dollars.

Commercial activities continue to increase. During the short financial period the Company experienced strong demand for the 'ECR' range – electricity-saving motors for supermarket and vending machine refrigeration systems – and for our Total Integration service offering – customising Wellington's technology to produce specially designed motor products for the appliance industry. Revenues were up 28% on the comparative six month period.

One of the lead indicators of success for the half year is the strong order book for Total Integration engineering programmes. This now stands at close to \$2 million, most of which will be realised in the 2008 financial year (the year to 31 December 2008). The Company is currently working on five Total Integration projects. Though a lot of work remains to be completed on each step along each project path, medium to long term revenue prospects from these programmes are high. Annual production volumes for all programmes are in excess of one million units per year, with some expected to reach several million units per year.

Post balance date, the Company accepted an offer of \$12.8 million for just over 9.2% of its share capital, issued as new shares, from a Socially Responsible Investment (SRI) fund of Union Bank of Switzerland (UBS) to help support the increase in activities required to fully secure and deliver these Total Integration opportunities. As previously advised, interest in the Company's ability to produce customised products for the appliance industry, and demand for our services, has increased greatly within the last six months. The Company now has revenue and profit opportunities over and above previous expectations.

For example, the announcement of the "North American Order for Air Conditioning and Refrigeration Equipment Development" made to the market on 22nd November 2007 concerns a Total Integration project with a customer we had been working with for more than two years and came 8 months earlier than we had expected. The customer's eagerness to accelerate their own product development, and bring forward their motor technology investments, is a product of the increased focus worldwide on energy efficiency and the growing requirement for new technical solutions to achieve this.

Investment in sales, delivery and engineering infrastructure increased during the period as did corresponding sales activity. Modest headcount growth was achieved, with all new additions being outside New Zealand. The Company shipped products to customers in 16 countries during the six months and delivered samples to 35 prospects in 17 countries.



Financial Review

Compared to the six months to 31 December 2006, group revenue was up 28% to \$5.1 million, with product revenues up 22% to \$4.7 million and engineering and license revenues up 291% to \$0.4 million. For comparative purposes, the group revenue was up 59% to \$11.9 million for the 12 months to 31 December 2007 against the 12 months to 31 December 2006.

The consolidated loss before tax was \$3.9 million for the six months to 31 December 2007, up from \$2.9 million in the comparative period. Operating loss was \$4.2 million, up from \$3.0 million. Exchange gains for the group were \$0.3 million against a loss of \$0.2 million in the six months to 31 December 2006.

Investment in sales and support infrastructure continues as per our growth plans – with the growth of international in-market sales, logistics and customer services resources approaching 100%.

The Company marginally decreased its net capitalisation of development assets, which it expenses through operating expenses, by \$0.2 million during the financial year as research and development efforts continue in line with the level of previous years.

Cash balance at year end was \$7.8 million. After the balance date, \$12.8m was received from UBS.

Stock on hand at year end was \$5.2 million, up from \$4.2 million in the prior year, and up from \$3.6 million at 30 June 2007. This highlights the lumpy requirements of working capital as the Company works through early growth of new accounts and product lines. Receivables were \$3.2 million, up from \$3.1 million at 30 June 2007 and trade creditors were \$2.6 million compared to \$2.0 million on 30 June 2007. Total creditors of \$3.6 million reported at 30 June 2007 includes non-trade creditors of \$1.6 million from the oversubscription of the June 2007 rights issue, returned to shareholders in July 2007.

Plant, Property and Equipment were steady at \$2.2 million.



The Growing Business

Products and Markets

Supermarket and Vending Refrigeration

The Company's ECR range of products has been increasingly successful in the commercial refrigeration market since the first substantial orders were obtained in late 2006, following the product launch in 2004.

These products are used by supermarket and vending equipment suppliers to allow their customers to save significant amounts of electricity. The range has been designed as a "drop in replacement" for standard low-efficiency motors. We believe that approximately 20 million of these standard motors are currently sold every year, and we are promoting our ECR products to eventually take most of this market.

This market leads in welcoming electricity-saving, high-efficiency motors because the equipment is generally required to run 24 hours a day, 365 days a year. Low-efficiency motors today run at 20-25% efficiency at best (and often much lower): so 10 units of power "in" generates 2 units of useful work "out". Wellington's ECR electronic motors only require 2.5 to 3 units of power to do the same amount of useful work. This saving gives the motor users – often major supermarkets - a payback of 3 to 6 months on the additional costs of deploying high-efficiency motors, so their investment is easy to justify. Hence we are seeing increasing demand.

Sales have been growing steadily with customers purchasing motors in increasing quantities, and additional prospective customers beginning their test and evaluation projects with samples, particularly in the US. Key customers in the US are Hill Phoenix, Federal Industries and Kroger Corporation – the second largest US supermarket chain. As a result, sales are expected to grow much more rapidly in the current year.

Deliveries to the 400,000 unit order announced late in the last calendar year have commenced. Some delays were encountered during the necessary test work required for approval of our motors across the customer's range, which is extensive, although all this work was satisfactorily completed post balance date.

The Company also offers a range of standard, low-efficiency motors to customers to assist their transition more easily to high efficiency Wellington products. These are sold under the "AirMoVent" brand. Sales of AirMoVent brand products reduced during the second half of the year, as the sales force focused on the ECR range, and as some AirMoVent customers moved forward with their preparations to take ECR energy-saving products from us in 2008.

Heat Recovery and Domestic Ventilation Systems

The Company offers a range of motors, controls and fans, which we call the "DD series", to customers in the Heat Recovery and Domestic Ventilation markets. These markets are becoming well developed in Northern Europe and our DD series is well suited to the requirements of European customers.

Heat recovery and ventilation products most often run continuously in Europe and customers demand electronically controlled motors for the electricity savings they bring. Furthermore, European ventilation systems tend to be of higher sophistication than those offered in the US and other countries (including New Zealand) and the special control features enabled by electronic motors are in demand.

The Company has been selling into this market since 2004 and has achieved good success. Sales revenues in 2007 were 7% up on 2006 but down 19% in the second half year. Overall DD sales



performance was less than hoped, in part because production of a major product line at one customer finished. In addition, significant changes were made to the structure of our sales team late in 2007, and new distribution arrangements have been put in place, both of which are expected to positively influence our sales in the medium term. Increasing numbers of customers are sampling our product range, and we expect growth to substantially increase in the second half of 2008.

Fan Filter Units

The Company made its first volume deliveries of the DF range of products, aimed at the clean room fan-filter market, during the second half of 2007.

This product range is used where customers require precise control over air flow levels. They are the largest motors in our standard product range and are used in major, high value installations such as semiconductor fabrication plants and LCD/plasma screen factories.

It is pleasing to report that significant sales have been secured in Asia, where opportunities for this product type are greatest. We have repeat orders for delivery in early 2008, with prospects for solid growth throughout the year.

Success in this market is enabling the Company to expand into other related ventilation markets, where volumes are higher and margins tighter. Proving the product range in the demanding fan-filter market is an excellent reference, and we are able to provide an attractive price and performance offering for other markets. We currently expect to see significant growth in these alternative markets towards the latter part of 2009.

Total Integration

As mentioned above, a key success of the second half of 2007 has been progress in the Company's Total Integration business. The increase in activity in this area, and the corresponding mid-term and long-term commercial opportunities, was a factor in securing the \$12.8m investment from UBS.

Total Integration is application specific motor and system design for commercial and residential appliance manufacturers. The ability to design in and scale the physical properties of Wellington's innovative motor offering allows the Company's design team to deliver electricity saving solutions at low system costs. The Company's offering is believed to be revolutionary in today's motor market.

The Company now has four active Total Integration projects at various stages of delivery and one major project just beginning. These projects will add close to \$2 million in engineering revenues in 2008. Product revenues ultimately secured will depend on the final supply arrangements agreed, but are expected to grow steadily throughout 2009. The smallest of these projects is expected to reach its projected levels of just over 1 million units per year in 2010. The largest project will result in sales of 5-7 million units per year, depending on how widely the customer adopts our design. The other projects also have volumes in the millions, and all have prospects for growth significantly beyond those numbers. Actual revenues for these projects will depend on the outcome of the engineering programmes and the customer's requirements for delivery of licenses, complete motors, motor components, electronics and other appliance components.

It is worth noting that the customers who have engaged the Company sell these volumes into their target markets already. Wellington is offering its customers the ability to launch a much improved electricity-saving version of an appliance (or appliance component) at commercially attractive costs. By working with companies who already have significant market share and strong brands, we believe that the adoption of Wellington technology will be accelerated. Meeting the requirements and gaining the trust of leading companies in these categories is both demanding and time consuming. We are confident that the investments made will offer excellent returns over the medium to longer term. We believe that this is the correct path to follow so that our methods will be adopted at the scale we seek.



The change that these customers are bringing with our designs to their respective markets is so profound that the requirements for confidentiality are high. Confidentiality enables Wellington's customers to maximise the competitive opportunity offered by moving to the new technology whilst protecting their existing product lines and supply networks. We realise that many shareholders and observers would prefer that we were able to disclose the names and markets of our customers and potential customers. However, secrecy gives Wellington several key advantages. Most notably, the development of close relationships with the customer's product design, engineering and sales teams of a class previously unavailable to existing motor and motor component suppliers.

Notwithstanding these comments, we are on occasion able to make an early release of a customer name. We expect that the names of most customers to enter the public domain late in 2008 and through 2009 as the associated products begin volume production and are in full commercial release.

As advised in earlier announcements, we expect to make further announcements concerning new Total Integration business later in 2008.

Growth Plans

The Company's growth plans are progressing well.

The sales and marketing organisation continues to develop with headcount reaching 20 people during the second half of the year, with 16 staff based outside New Zealand. The Company will move to larger premises in Singapore at the end of the first quarter 2008 and will have established its first regional office in Chicago by the end of the second quarter.

The investment in engineering and rapid prototyping capability is complete, although some further investments in rapid prototyping, notably associated with in-house facilities for rapid turn-around of high strength engineering polymer (plastic) components, are intended. In total the Company has spent close to \$2 million in capital and operating expenses to establish the facilities and our firm view is that these investments have already proved their worth, being instrumental in securing the Total Integration work to date.

Improving the Company's supply capability and production cost continues, with our Singapore team driving cost reduction through Design for Manufacturing and Assembly ('DFMA') across the standard product range.

The \$12.8m investment from UBS will allow increased sales and Total Integration activity in addition to our prior acceleration plans. We believe that additional investment now will substantially increase returns in 2010 and onwards. We are bringing forward activities previously planned for late 2008 and 2009. There are four key areas for investment:

Strengthening of sales, marketing and in-market support within the sales organisation, primarily overseas with a focus on North American appointments in 2008;

Improvement of the Company's ability to deliver products in volume rapidly, including the establishment of a manufacturing facility in Singapore and the implementation of systems and processes appropriate for high volume supply direct to leading appliance manufacturers in North America, Asia and Europe ("Tier 1" supply systems);

Reduction of the time taken to move new standard and special-purpose Total Integration designs from prototype to full production status

Bringing forward the next generation of research and development to extend Wellington's innovation lead and to access new market areas



One of the key indicators of growing commercial success in the six months to December 2007 is the steady improvement in supply chain operations. The Company's logistics network now delivers product to more countries in greater quantities with a steadily improving level of service. The Company will continue to develop the logistics network to develop new customers and further improve customer service.

The company plans to shift the remaining New Zealand volume production activities to Singapore, with local staff being reassigned to engineering and short run production for Total Integration customers. Full capability for short-run production of all Wellington product types will be retained in New Zealand.

As noted above, Wellington's Research and Development efforts will also be lifted. Although the underlying rate of investment in new products will not change, materials science, electronics and core software research will step up with the objective of delivering cost and performance improvements to the existing standard product and Total Integration offerings.

The Company continues to extend its formal Intellectual Property by way of patent and copyright: two new patent families covering several new techniques entered the international phase under the Patent Cooperation Treaty (PCT) during the half year. This continues to be a significant cost to the business but is considered to be an important part of the protection of the long-term value of the Company and Group.

Other Items

New Director

On 11 December 2007, Wellington announced that Dr Richard (Rick) Boven, and ex-partner of The Boston Consulting Group, was appointed as a non-executive independent director of the company. Dr Boven works as a management consultant and company director. He has worked in Australia and the USA in a wide range of industries and topics. Industry evolution, business strategy, economic development and regulation, organisation development, management development and operational effectiveness are topics where he has deep expertise. Currently, Rick advises several small, high growth New Zealand enterprises launching themselves onto global markets.

Rick was the initial leader of The Boston Consulting Group in New Zealand and remains a Senior Advisor to BCG. He is a longstanding director of ASB Bank and Sovereign Insurance. Initially a social scientist, Rick began his business career after completing an MBA at the Australian Graduate School of Management, and he has a PhD in environment management from The University of Auckland.

IFRS

The Company has adopted New Zealand Equivalents to International Financial Reporting Standards (NZIFRS) for the financial period to 31 December 2007. The comparative financial information for the year ended 30 June 2007 has been restated to reflect this. The principal measurement adjustments arising on adoption of NZIFRS related to the accounting for share options and long service leave. Reconciliations and descriptions of the effect of transition from previous New Zealand Financial Reporting Standards to NZIFRS can be found at the end of this announcement. Full IFRS financial statements will be presented in the Annual Report along with revised accounting policies.



Outlook

The Company is positioned well within its targeted product and Total Integration markets. It has acquired customers who are world leaders in their markets and is increasingly gathering positive attention in the broader markets for motor products.

Sales growth in 2008 will continue to be volatile as large new customers begin to take deliveries and order profiles evolve. The order book and forward workload for Engineering Services is more solid now than at any previous time in the Company's history.

The Company will execute its revised organisation and investment growth plans, including establishment of the first owned and operated manufacturing site in Asia, during the next 12 months. The costs of these plans have been fully assessed, and the facilities are carefully designed based on experience to date. We believe these investments will be a crucial step in building the critical mass and demonstrable capability necessary to deliver volume products to the world's leading appliance companies.

Although future results remain difficult to predict, our current plans call for the Company to move into profitability in the second half of 2009. The prospects for significant and rapidly growing returns in 2010 and beyond remain substantial and Directors believe the Company is well positioned to profitably capture a significant share of the overall world fractional horsepower electric motor market.

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 30 April 2008.

Dividends

No Dividends are proposed.

Annual Meeting

The date and place of the Annual Meeting will be advised. The Annual Report will be available in the last week of March 2008.



WELLINGTON DRIVE TECHNOLOGIES LIMITED

Income Statement for the period ended 31 December 2007

Unaudited	Consolidated	
	6 months ended December 2007 \$'000	12 months ended June 2007 \$'000
Revenue	5,069	10,549
Cost of sales	(4,792)	(10,185)
Gross Profit	\$ 277	\$ 364
Other income	403	325
Administration expenses	(931)	(1,238)
Marketing expenses	(1,655)	(2,394)
Other expenses	(2,304)	(3,623)
Operating profit	(4,210)	(6,566)
Finance income	323	302
Finance expense	(44)	(77)
Loss before income tax	(3,931)	(6,341)
Income tax expense	-	-
Loss for the year for continued activities	(\$ 3,931)	(\$ 6,341)
Basic earnings per share (cents)	(2.57)	(2.91)



WELLINGTON DRIVE TECHNOLOGIES LIMITED

Balance Sheet as at 31 December 2007

Unaudited	Consolidated	
	6 months ended December 2007 \$'000	12 months ended June 2007 \$'000
Current assets		
Cash and cash equivalents	7,837	14,744
Trade and other receivables	3,235	3,072
Inventories	5,192	3,579
Total current assets	16,264	21,395
Non current assets		
Property, plant and equipment	2,205	2,244
Intangible assets	2,966	2,619
Total non current assets	5,171	4,863
Total assets	\$ 21,435	\$ 26,258
Current liabilities		
Trade and other payables	2,554	3,574
Bank finance facilities (secured)	955	960
Provisions	156	157
Total current liabilities	3,665	4,691
Non current liabilities		
Lease liability (secured)	144	-
Total liabilities	3,809	4,691
Net assets	\$ 17,626	\$ 21,567
Equity		
Contributed equity	55,802	55,806
Retained earnings	(38,306)	(34,373)
Other reserves	130	134
Total equity	\$ 17,626	\$ 21,567



WELLINGTON DRIVE TECHNOLOGIES LIMITED

Cash Flow Statement for the period ended 31 December 2007

Unaudited	Consolidated	
	6 months ended December 2007 \$'000	12 months ended June 2007 \$'000
Cash flows from operating activities		
Receipts from customers exclusive of GST	5,158	10,522
Payments to suppliers and employees exclusive of GST	(9,787)	(16,284)
Net GST received / (paid)	83	(149)
Cash utilised in operations	(4,546)	(5,911)
Interest received	323	302
Interest paid	(44)	(77)
Income taxes refunded	-	1
Net cash outflow from operating activities	(4,267)	(5,685)
Cash flows from investing activities		
Payments for property, plant and equipment	(307)	(1,252)
Development costs	(446)	(928)
Payments for intangible assets	(245)	(94)
Net cash outflow from investing activities	(998)	(2,274)
Cash flows from financing activities		
Cash proceeds from share issues	(4)	19,371
Shareholder oversubscriptions	(1,638)	1,638
Net cash (outflow) / inflow from financing activities	(1,642)	21,009
Net (decrease) / increase in cash and cash equivalents	(6,907)	13,050
Cash and cash equivalents at the beginning of the financial period	14,744	1,694
Cash and cash equivalents at end of period	\$ 7,837	\$ 14,744
Reperesented by:		
Cash on hand and at bank	252	3,016
Bank call deposits	2,999	9,203
Short term bank deposits less than 3 months	3,999	1,849
Short term bank call deposits 3 to 12 months	587	676
	\$ 7,837	\$ 14,744



WELLINGTON DRIVE TECHNOLOGIES LIMITED

Adoption of NZ IFRS

Wellington has adopted New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) for the financial period to 31 December 2007.

The comparative financial information for the year ended 30 June 2007 has been restated to reflect the adoption of NZ IFRS.

The principal measurement adjustments arising on adoption of NZ IFRS related to share based payments and employee long service leave remuneration. The impact of these adjustments on the comparative periods is shown in the following table:

Unaudited	Consolidated	
	as at 30 Jun 07 \$'000	as at 1 Jul 06 \$'000
Total equity reported under NZ FRS	21,613	8,497
Adjustments to Retained Earnings		
Employee long service leave remuneration	(46)	(40)
Share based payments	(128)	(55)
Net retained earnings adjustments	<u>(174)</u>	<u>(95)</u>
Adjustments to Reserves		
Share based payments	128	55
Total equity reported under NZ IFRS	<u>\$ 21,567</u>	<u>\$ 8,457</u>

Reconciliations and descriptions of the effect of transition from previous New Zealand Financial Reporting Standards to NZ IFRS on Wellington's equity and net income will be presented in the Annual Report along with the revised accounting policies.

For further information visit www.wdtl.com.

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