

## Annual General Meeting

Thursday 22<sup>nd</sup> November 2001

(Dr Ray Thomson, Chairman, opens)

Good afternoon.

This calendar year has been the most significant in the history of our Company. There has been a high level of activity by the team, executing the marketing plan and continuing to refine our Company's product and technology portfolios. Some valuable business is now within reach which will improve our financial performance. We believe we have got the right formula to properly commercialise our technology. What we have not yet got correct is our estimates of timing.

As a consequence our full year result for the 30 June 2001 year was at (\$2M) close to the loss projected in our Listing profile prepared a year ago. This quarter, we had expected to see revenues begin to increase as new licence arrangements were concluded. Our performance in the half-year ending 31 December 2001 is expected to be lower than projected in the Listing Profile. We are expecting a loss of approximately {\$1.2M} as opposed to {\$200k} projected. The timing of revenues from licence arrangements is difficult to predict, and increased revenues from sale of new licences aren't expected until the new calendar year.

Similarly our level of contract engineering revenues has been below projection, as contract revenues are linked principally to the conclusion of new licence arrangements. One significant European contract has already been completed and recognized this quarter.

Nonetheless, this year has been one of significant achievement. The board is confident that the high level of effort on the marketing and sales front will shortly be reflected in improved revenues.

Dr Green will now describe the marketing plan followed to date, and what will be happening in the year ahead.

(Dr Ross Green, Managing Director, continues)

Thank you, Mr Chairman.

Before sharing with you some of the achievements of the past year, and beginning to look ahead, it is important that you know that the team at Wellington Drive is well aware that improved financial performance is overdue. The team and I expect to be judged by hard results.

This year we expected revenues to rise more rapidly than they have, and none of us are comfortable with the results. As of today, November 22, I still can't say with certainty that we will achieve our key target of announcing one new licence agreement of significance before the end of this calendar year.

That said, the team has worked in a dedicated and efficient fashion to carry out our plan. We began moving out into the market place in December 2000, using two products - the RF200 and RF66 motors - as demonstrations of the benefits our proprietary technologies could bring.

Our marketing material is carefully designed, and our marketing plan is based on thorough research. The initial phase of our introduction hinged on a display at the Domotechnica 2001 exhibition in Cologne, Germany in March, augmented by an on-going programme of direct contact and customer visits in the United States and Europe.

The response to our market pitch, where we position ourselves as the "affordable" advanced appliance motor technology, has been excellent. Frankly speaking, our team has been presented with more opportunities than it can handle. There are numerous reasons for this, but "market conditions" is the most significant - we are in the right place at the right time with a new technology.

Energy costs, and therefore energy efficiency, are beginning to dominate the design of appliances in Europe to a greater extent than ever before. Energy efficiency is finally becoming important to consumers in the United States.

Consequently, our offering of energy efficient motors at an affordable price - cost always being important - is compelling. Low audible noise, and our RF66 motor is talked about in the industry as the quietest motor known, is possibly the second most important feature after energy efficiency: consumers don't expect to pay a premium and have to suffer noise.

Our demonstrable features, performance and cost advantages, and the high level of response we've received, mean that we have been able to get recognition as a strategic technology at the highest level in market leading companies in both Europe and the United States.

Why then aren't we signing deal after deal, and why aren't the revenues going through the roof? This is a fair question, and I want to try and answer it now.

Firstly, there is surprise that a company from New Zealand (traditionally renowned for its scenery and farming produce rather than technology) could have made a major innovation. I believe that most prospects think "Yes, I've seen the product, I've had the samples, I've checked the figures and they're right - but how can a small company from, where, New Zealand, have done this?"

Secondly, there is doubt. I can summarize that as "OK, I understand how your motors work, I've seen the process you use to build them, and it all seems so simple and cheap that I can see why the price can be low. However, I just can't really believe it – where is the catch?" The long development cycles in the industry understandably do not create a climate that is receptive to change. The huge investments in capital plant for producing conventional motors – some of which we obsolete – also need to be taken into account.

Since June this year, when we first started talking details with selected prospects we've seen these reactions of surprise and doubt coming through. We've gradually overcome them by consistency, clarity and delivery - that is, providing proof and delivering what we promised. Customers appreciate that above all else.

Finally, there is fear. Our major prospects, many of whom are market leaders and household names, see our technology to be of strategic significance. The stakes for them are high. They can see the need for our technology, coupled with an added fear of being left behind by the market – possibly in competition with others who are working with us. It requires them to make an investment in their future, and to move out of their comfort zone...a major decision that could ultimately give them huge market advantages. However, we are working in an industry that is not used to major change, and does nothing quickly.

As with all major market and technology changes there will be winners and losers.

We most definitely want to be a winner, and so, of course, do our targets. As a consequence, our major prospects would like to have exclusive use of our designs. On the other hand, we want to make sure that our technologies penetrate the industry to the widest possible extent, and that means working with everyone if we can.

Our best prospect for growth in the medium and longer term is to remain independent. We continue to build and strengthen our own capability as both a technology provider and a supplier of components and assemblies. That means we have declined to enter into agreements that overly restrict our ability to exploit our technologies; consequently, it is taking us a little longer than expected to formalise new relationships.

Although the financial results of your Company are yet to show this, given the results from our marketing initiative this year there is in my opinion no longer any doubt that our proprietary methods will eventually be widely used. However, at this point we have to hold firm and ensure that agreements we strike properly balance medium and longer-term returns - where we expect to deliver real value - against short-term revenues. These decisions are difficult, as I'm well aware that shareholders in this Company have shown admirable patience already.

Nevertheless, based on the detailed knowledge that we now have of the market and the market dynamics, your management team has been able to put projections to the board that show good returns over the next few years. Despite the disappointment this year on the financial front, the management team and I are more convinced than ever before that your Company has excellent prospects. We believe that this confidence will soon be reflected in the figures where it counts.

Before concluding I'd like to mention a few highlights of the year.

An important new patent, covering our method for constructing extremely flat, low cost appliance motors was granted recently. This method is already in use in two products in the United States, and appears set for use also in premium domestic appliances in Europe. Several new patents relating to the RF66 motor should also be granted next year.

The basic RF66 and RF200 motors have finally reached stable production status. Small production runs of each have been completed, and samples have been provided to companies in Europe, the US, Australia, New Zealand and South Africa for evaluation.

Expansion of the RF66 family has continued. I have one of the new microprocessor-based RF66 units here with me today. This version will be introduced, subject to conclusion of appropriate commercial arrangements as discussed above, in three European products next year. Higher-power variants of the RF66 have also been tested, and we plan to bring one of these to production status in 2002.

An improved version of the HV1000 electronic controller, used in the RF200, is being introduced in January. This controller pulls the overall product cost down by around 10%. It has an "expansion slot" which can be used to add sophisticated features when these are required.

Going forward we remain focused on closing new licence arrangements on favourable terms. While we are still concentrating on market leaders, we are beginning to widen the pool of targets. You can expect to see our focus continue to shift from marketing to sales-related activity over the next year.

In February we are at the Hometech exhibition in Berlin, Germany - the major European appliance exhibition in 2002. We are already setting appointments around that exhibition.

It has been an exciting year, with a number of concrete achievements. While it is disappointing to have to ask for further patience from you, I firmly believe your Company is well positioned in the marketplace and has excellent prospects.

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