



Condensed

Interim Report

June 2014

Wellington's purpose is to deliver solutions to solve our customers' refrigeration energy consumption and system control problems through the development of Advanced Motor and Intelligent Control Solutions. Our personal service, reliable products, smart solutions and relentless pursuit of excellence will ensure we lead the competition and build a world-class company.

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Chairman and CEO Report

Financial Highlights

In the first half of 2014 Wellington announced the start of the growth phase of its improvement journey and focused on actions designed to improve its product roadmap, sales capability and cost structures.

The Company's commercial refrigeration revenue (see footnote on page 5) in the first half of 2014 was \$10.6m versus \$14.5m in the same period last year. The trading environment has been difficult in Latin America. Revenue levels with other customers and regions have shown considerable increases versus the same period in 2013 (see table below).

Gross margin increased by 1.5%, to 18.5% compared with 17% for the same period last year. As expected, the gross margin percentage in the first half was lower than the 20.1% recorded in fourth quarter of 2013 due to pricing changes with several major customers to retain share and enable future growth. Our improvement goal of 25+% gross margin remains achievable in the first half of 2015 as our new strategic partner East West delivers higher volumes and we realise further cost reductions from our other supplier partners.

EBITDA (see footnote on page 5) for the period was a loss of \$1.955m (\$1.471m for the same period last year) and the net loss was \$1.992m (\$1.756m for the same period last year). Given the downturn in revenue the loss was mitigated by the continued focus on cost reduction and margin improvement.

Revenue

Region	Commercial refrigeration					
	Motors 000's			USD 000's		
	June 2014	June 2013	% Change	June 2014	June 2013	% Change
Latin America	292	504	-42.1	4,882	9,246	-47.2
Europe, Middle East & Africa (EMEA)	129	68	+89.7	2,314	1,343	+72.3
Asia & Pacific (APAC)	81	58	+39.7	980	684	+43.3
USA & Canada	22	25	-12.0	646	752	-14.1

As highlighted in our first quarter trading update and at the Annual Shareholders' Meeting in June 2014, revenue in the period for the Latin American business has been negatively affected by a combination of factors. The main reason for the revenue weakness is reduced demand from our largest customer in the region. Contributing factors include the Mexican "sugar tax", Argentine foreign exchange restrictions impacting purchasing in that area, slower transition from shaded pole to EC motors, and customer de-stocking.

We experienced strong competitive pressure in the Latin American region, as competitors fight for a smaller available market by adopting aggressive pricing and commercial offers to take share and win new projects. This has resulted in the Company losing some share with two customers in that region. The company's lower cost supply chain is assisting us to compete more readily against these strategies.

On a more positive note, the EMEA and APAC regions are experiencing strong growth, albeit from a low base, which we believe is a result of the investments we have made to deliver new customers in Asia and an indication of the start of a demand bounce-back with our European customers. We have also added new customers in these regions in both bottler cooler and supermarket display case applications.

The concentration of customers has been the subject of previous comment. Actions underway to resolve this through market and customer diversification are ongoing and are a core part of our priorities for 2014 / 2015.

Operating Cost Improvements

The reduction of operating costs continues to be a highlight, which is important given the short-term revenue decline. Our operating costs continue to track lower. Improving operating process efficiencies, reducing or removing overhead costs not directly associated with innovation and adding value to customers, and constraining discretionary spend is a focus for the business. Cost reduction highlights in the period included:

- ✓ Completed the transfer of supplier management activities from Singapore to New Zealand and closed the Singapore supply chain office, which resulted in both headcount savings and process efficiencies.
- ✓ Moved the Company Headquarters and Innovation Centre to a lower cost Auckland office. This was the completion of our global office rationalisation program, which over the last eighteen months has also seen the closure of Chicago and Singapore premises and lower cost offices in Turkey.
- ✓ Reduction of New Zealand office headcount and deferral of headcount additions that had been previously planned in engineering and sales teams.

Five Main Priorities

Our actions in 2014 are designed to put in place the new products, new sales channels and a new cost model to put us in a position to grow again. The team is making progress on these priorities as follows:

1. Establish sales partnerships to access growth opportunities in new markets

We completed the signing of an USA sales agreement with East West and a South China sales agreement with Ting International. The balance of 2014 will be focused on managing these relationships which we expect to deliver revenue in 2015. We have other sales partnership discussions underway in the United Kingdom, Australia and South Africa.

2. Revenue diversification through increased business with supermarket display case manufacturers

The success of this priority ultimately rests on the launch of our new next generation EC motor. We have customers and distribution channels in place awaiting the launch of this product in the first half of 2015.

3. Complete and launch the next generation EC Motor by the end of 2014

We expect to launch the product for sampling by the end of 2014. This motor has been designed with higher efficiency and lower noise than the competition and it also solves a market problem of being able to use one platform on any global mains voltage.

4. Complete a Smart Controller field trial with a customer by end of 2014

The Smart Controller will be the company's first product in our Intelligent Solutions Portfolio, and is on track for launch by the end of 2014. We are currently finalising customer field trials for the fourth quarter of 2014.

5. Complete East West supplier transition and enable our lower manufacturing cost point

At the end of first quarter we completed the qualification of East West as a supplier for our highest running motor products (exceeding our project target date by one quarter). We are now focused on further part number and country approvals and are starting to ship initial quantities to the market.

New Products

Our new product development and marketing activities are proceeding at pace and our two new flagship products are about to enter the pre-production tooling and customer validation stage.

Smart Controller – Wellington's Smart Controller will enable our customers' coolers to be connected to the 'Internet of Things'. It will support customers' geo-location and marketing applications, will provide advanced system management functionality and will reduce total cost of ownership of the cooling solution. The company is actively marketing its new solution to major manufacturers and brands and is encouraged by the positive responses we have received.

Next Generation EC Motor – Wellington's new generation motor platform will deliver best in class performance on energy efficiency and noise levels. It has been designed with Supermarket Display Cases in mind, but can also support bottle cooler applications. We believe this product solves many needs in the market with its advanced feature set and competitive cost point.

We have a pipeline of new motor and controller designs being researched. These designs are focused on further Smart Control systems with advanced control technologies, motor field programming devices and next generation motors.

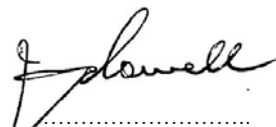
Outlook

Our first quarter trading update in June highlighted changes in guidance as a result of information received from Latin American customers. The demand issue we are seeing in Latin America is expected to continue through the balance of 2014. We are adjusting guidance to now expect 2014 revenues to be lower than 2013 with the loss before interest and tax remaining at similar levels.

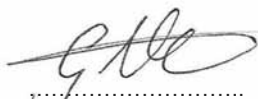
As a result of the decline in revenue, the company will manage its growth investment appropriately to focus on the five main priorities. The Company has secured a trade receivable factoring facility for business with its major customer, which will free up working capital. Current forecasts indicate that cash resources are adequate to fund the business in the medium term.

The first half of 2014 was the start of our new three-year growth strategy and we are making solid progress on structural change and enabling initiatives.

The Board and Management are confident that the actions underway will improve customer diversification and revenues, deliver industry-leading products, continue to reduce costs, and significantly improve our 2015 results.



.....
Tony Nowell
Chairman



.....
Greg Allen
Chief Executive

Footnotes:

EBITDA (i.e. Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. The Company considers that it is a useful financial indicator because it avoids the distortions caused by the differences in amortisation and impairment policies and the impact of fair value changes. EBITDA is calculated as the loss before interest and taxation of \$2.161 million (2013 - \$1.739 million loss), less depreciation, amortisation and impairment of \$0.206 million (2013 - \$0.268 million).

Commercial refrigeration revenue - In 2013 the Company's revenue included \$1.9m of revenue from ventilation products, a business that the Company exited in 2012 / 2013. There were no sales of ventilation products in 2014.

Condensed Interim Statements of Comprehensive Income

Consolidated	Note	Unaudited Six Months Ended 30 Jun 2014 \$000s	Unaudited Six Months Ended 30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Revenue	4	10,570	16,363	27,437
Cost of sales		(8,615)	(13,585)	(22,306)
Gross profit		1,955	2,778	5,131
Other income		112	181	382
Operating expenses	5	(4,228)	(4,698)	(9,261)
Loss before interest & taxation		(2,161)	(1,739)	(3,748)
Finance income	6	274	4	9
Finance expenses	6	(105)	(20)	(24)
Loss before income tax		(1,992)	(1,755)	(3,763)
Income tax expense		-	(1)	(5)
Loss for the period		(1,992)	(1,756)	(3,768)
Other comprehensive income:				
Items that may be reclassified subsequently to the profit or loss:				
Exchange differences on translating operations		(484)	530	(270)
Cash flow hedges		(31)	2	33
Income tax relating to comprehensive income		-	-	-
Other comprehensive (loss) / income for the period		(515)	532	(237)
Total comprehensive loss for the period		(\$2,507)	(\$1,224)	(\$4,005)
Loss for the period attributable to the Owners of the Company		(\$1,992)	(\$1,756)	(\$3,768)
Total comprehensive loss attributable to the Owners of the Company		(\$2,507)	(\$1,224)	(\$4,005)
Basic earnings per share – cents	18	(1.58)	(1.87)	(3.49)
Diluted earnings per share – cents	18	(1.58)	(1.87)	(3.49)

The above Condensed Interim Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Condensed Interim Statements of Changes in Equity

Consolidated	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
Unaudited for the six months ended 30 June 2014					
Equity at beginning of period		114,308	(102,520)	(2,428)	9,360
Loss for period		-	(1,992)	-	(1,992)
Other comprehensive income:					
Exchange differences on translation operations		-	-	(484)	(484)
Cash flow hedge		-	-	(31)	(31)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(1,992)	(515)	(2,507)
Share option compensation expensed		-	-	20	20
Contributions of equity	14	(10)	-	-	(10)
Equity at end of period		\$114,298	(\$104,512)	(\$2,923)	\$6,863
Unaudited for the six months ended 30 June 2013					
Equity at beginning of period		108,544	(99,004)	(2,054)	7,486
Loss for period		-	(1,756)	-	(1,756)
Other comprehensive income:					
Exchange differences on translation operations		-	-	530	530
Cash flow hedge		-	-	2	2
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(1,756)	532	(1,224)
Share option compensation expensed		-	-	64	64
Contributions of equity	14	4,404	-	-	4,404
Equity at end of period		\$112,948	(\$100,760)	(\$1,458)	\$10,730
Audited for year ended 31 December 2013					
Equity at beginning of period		108,544	(99,004)	(2,054)	7,486
Loss for period		-	(3,768)	-	(3,768)
Other comprehensive income:					
Exchange differences on translation operations		-	-	(270)	(270)
Cash flow hedge		-	-	33	33
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(3,768)	(237)	(4,005)
Share option compensation expensed		-	-	115	115
Contributions of equity	14	5,764	-	-	5,764
Refunds of lapsed part paid shares		-	252	(252)	-
Equity at end of period		\$114,308	(\$102,520)	(\$2,428)	\$9,360

The above Condensed Interim Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Condensed Interim Statements of Financial Position

Consolidated	Note	Unaudited as at 30 Jun 2014 \$000s	Unaudited as at 30 Jun 2013 \$000s	Audited as at 31 Dec 2013 \$000s
Current Assets				
Cash and cash equivalents		4,853	5,367	2,984
Trade and other receivables	7	6,363	9,912	7,892
Derivative financial instruments	13	-	-	31
Inventories	8	4,820	3,327	3,975
Total current assets		16,036	18,606	14,882
Non-Current Assets				
Plant and equipment	9	648	488	425
Intangible assets	9	1,991	1,281	1,566
Total non-current assets		2,639	1,769	1,991
Total assets		\$18,675	\$20,375	\$16,873
Current Liabilities				
Trade and other payables	10	7,075	9,118	7,032
Provisions	11	211	527	481
Total current liabilities		7,286	9,645	7,513
Non-Current Liabilities				
Borrowings	12	4,226	-	-
Derivative financial liabilities	13	300	-	-
Total liabilities		11,812	9,645	7,513
Net assets		\$6,863	\$10,730	\$9,360
Equity				
Contributed equity	14	114,298	112,948	114,308
Accumulated losses		(104,512)	(100,760)	(102,520)
Other reserves		(2,923)	(1,458)	(2,428)
Total equity		\$6,863	\$10,730	\$9,360

The above Condensed Interim Statements of Financial Position should be read in conjunction with the accompanying notes.

Condensed Interim Statement of Cash Flows

Consolidated	Note	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Cash flows from operating activities				
Receipts from customers exclusive of GST		11,976	15,288	28,050
Payments to suppliers and employees exclusive of GST		(14,316)	(15,191)	(31,392)
Interest received		9	4	9
Interest paid		(5)	(20)	(24)
Taxation paid		-	(1)	(8)
Net GST received		518	453	929
Net cash (outflow) / inflow from operating activities		(1,818)	533	(2,436)
Cash flows from investing activities				
Payments for plant & equipment		(366)	(34)	(102)
Payments for intangible assets		(651)	(202)	(994)
Proceeds from sale of plant & equipment		-	41	44
Net cash outflow from investing activities		(1,017)	(195)	(1,052)
Cash flows from financing activities				
Cash proceeds from share issues, net of issue costs		4,698	4,404	5,764
Proceeds from bank finance facilities		-	905	905
Repayments of bank finance facilities		-	(2,115)	(2,115)
Finance lease payments		-	(4)	(4)
Net cash inflow from financing activities		4,698	3,190	4,550
Net increase in cash and cash equivalents		1,863	3,528	1,062
Cash and cash equivalents at the beginning of the financial period		2,984	1,869	1,869
Effect of exchange rate movements on cash		6	(30)	53
Cash and cash equivalents at end of period		\$4,853	\$5,367	\$2,984

The above Condensed Interim Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Condensed Interim Financial Statements

for the six months ended 30 June 2014

1. GENERAL INFORMATION

Wellington Drive Technologies Limited (the "Company" or the "Parent") and its subsidiaries (together the "Group") develop, manufacture, market and sell energy saving, electronically-commutated (EC) motors and fans for worldwide use. The Company and its subsidiaries are profit oriented entities.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 21 Arrenway Drive, Rosedale, Auckland 0632, New Zealand.

These consolidated interim financial statements have been approved for issue on 29 August 2014.

These consolidated interim financial statements have not been audited. The comparative information for the year ended 31 December 2013 has been extracted from the audited Financial Statements and Annual Report.

2. BASIS OF PREPARATION

These consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with the New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and NZ IAS 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those applied by the Group in its financial statements as at and for the year ended 31 December 2013. Certain comparatives have been amended to conform to current presentation.

(a) *Going concern convention*

Wellington meets its day-to-day working capital requirements out of its available cash resources. The Group does not have access to any bank borrowing facility.

The current economic conditions and competitive activity create inherent uncertainty over the level of demand for Wellington's products and product pricing. Wellington's forecasts and projections, taking account of reasonably possible changes in trading performance, show that Wellington should be able to operate without needing to seek additional funding from shareholders.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed interim financial statements.

(b) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand dollars, rounded to the nearest thousand, which is the Group's presentation currency.

The Board believes US Dollars is the primary economic environment that the Parent operates in. The presentation currency for the Group and the Parent remains New Zealand dollars due to the Group's shareholder base being concentrated in New Zealand.

(c) *Standards, amendments, and interpretations affecting the financial statements*

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 was issued in November 2009, October 2010 and December 2013. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. The Group is yet to assess NZ IFRS 9's full impact.

IFRS 9, 'Financial Instruments', was issued by the International Accounting Standards Board in July 2014 as a complete version of the standard. This standard adds to the requirements of NZ IFRS 9 by incorporating the expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess the impact of this standard and does not expect to adopt it before its effective date.

NZ IFRS 15, Revenue from contracts with customers, (effective for annual periods beginning on or after 1 January 2017) NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to assess NZ IFRS 15's full impact. The Group will apply this standard from 1 January 2017.

There are no NZ other IFRS's or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. SEGMENT INFORMATION

(a) Reportable segments

At 30 June 2014, the Group is organised on a global basis into one operating segment: developing, manufacturing, marketing and selling energy saving, electronically-commutated (EC) motors and fans for worldwide use. The segment result is reflected in the financial statements.

(b) Geographical segments

The Group operates in three main geographical areas, even though it is managed on a global basis. The home country of the Company, and the home of the parent company, is New Zealand. The Group's revenue is generated mainly from the supply or manufacture of electric motors by the Company.

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Revenue by Destination			
Americas	6,623	12,073	19,395
Asia/Pacific	1,163	827	1,725
Europe *	2,784	3,463	6,317
Total	\$10,570	\$16,363	\$27,437

Revenue is allocated above based on the country in which the customer is located.

*2013 revenue for Europe includes revenue for the discontinued ventilation motor business of \$1,870,000.

5. OPERATING EXPENSES

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Amortisation of intangible assets	110	161	304
Depreciation of plant & equipment	96	107	214
Development time capitalised	(560)	(72)	(690)
Employee benefits	2,925	2,771	5,567
Exchange losses / (gains)	73	22	(129)
Impairment of intangible assets	-	-	318
Rental expense relating to operating leases	171	239	461
Research & development costs expensed	89	107	337
Restructuring provision – unused amounts reversed	-	(48)	-
Other operating costs	1,324	1,411	2,879
Total	\$4,228	\$4,698	\$9,261

6. FINANCE INCOME AND EXPENSES

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Finance income			
Change in fair value of financial derivative	265	-	-
Other interest income	9	4	9
	\$274	\$4	9
Finance expense			
Amortisation of borrowing	83	-	-
5% coupon	17	-	-
Cost of preference share issue	100	-	-
Other interest	5	20	24
	\$105	\$20	\$24

7. TRADE AND OTHER RECEIVABLES

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Net trade receivables			
Trade receivables	5,840	9,347	7,272
Provision for doubtful debts	(136)	(199)	(161)
	5,704	9,148	7,111
Prepayments	194	263	325
VAT/GST refunds due	419	369	356
Income tax refund due	3	-	3
Other receivables	43	132	97
	\$6,363	\$9,912	\$7,892

8. INVENTORIES

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Finished goods – at cost	3,058	2,366	2,566
Work in progress – at cost	2,082	1,532	1,779
Raw materials – at cost	618	808	710
Less inventory provisions	(938)	(1,379)	(1,080)
Total inventories	\$4,820	\$3,327	\$3,975

9. PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Plant and Equipment \$000s	Intangible Assets \$000s
Six months ended 30 June 2013		
Opening net book value as at 1 January 2013	585	1,188
Additions	34	202
Disposals	(47)	-
Depreciation and amortisation	(107)	(161)
Exchange adjustment	23	52
Closing net book amount as at 30 June 2013	\$488	\$1,281
Six months ended 30 June 2014		
Opening net book value as at 1 January 2014	425	1,566
Additions	366	651
Disposals	-	-
Depreciation and amortisation	(96)	(110)
Exchange adjustment	(47)	(116)
Closing net book amount as at 30 June 2014	\$648	\$1,991

10. TRADE AND OTHER PAYABLES

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Trade payables	6,176	7,821	5,995
Related party payables	336	418	593
Accrued expenses	257	643	205
Employee expenses	306	236	239
	\$7,075	\$9,118	\$7,032

11. PROVISIONS

	Unaudited Six Months Ended 30 Jun 2014 \$000s	Unaudited Six Months Ended 30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Restructuring provisions	-	122	195
Warranty provisions	211	405	286
	\$211	\$527	\$481

(a) Restructuring provisions

Carrying amount at start of period	195	479	479
Additional provisions recognised	-	-	143
Amounts used	(191)	(313)	(343)
Unused amounts reversed	-	(48)	(83)
Exchange adjustment	(4)	4	(1)
Carrying amount at end of period	\$-	\$122	\$195

In August 2011, the Company announced a plan to restructure its operations. Provisions were made to recognise the costs expected to be incurred as a result of restructuring including redundancies, onerous lease costs and onerous supply contracts.

(b) Warranty provisions

Carrying amount at start of period	286	529	529
Additional provisions recognised	211	339	504
Amounts used	(9)	(122)	(144)
Unused amounts reversed	(270)	(372)	(607)
Exchange adjustment	(7)	31	4
Carrying amount at end of period	\$211	\$405	\$286

The Group sells electric motors with warranty periods of up to three years. The terms of the warranty provide that the Company will repair or replace items that fail to perform satisfactorily. A provision is recognised based on historical data and average levels of repairs and warranty claims experienced by the Group. It is expected that the provision will be utilised within one year as any product failures are typically exhibited within one year of sale.

12. BORROWINGS

On 19 May 2014 the Company issued \$5,042,346 of mandatory convertible preference shares at an issue price of \$0.20 per share, bearing a fixed coupon rate of 5% per annum, payable six monthly in arrears. In May 2017 the convertible preference shares mandatorily convert to ordinary shares in accordance with a conversion ratio. If the ordinary share price (at that time) is greater than \$0.24, then each convertible preference share will convert to ordinary shares on a 1:1 basis. If the ordinary share price is less than or equal to \$0.24, then preference shares convert at \$0.20 divided by 80% of the then share price for each preference share held.

The preference shares are recognised initially as a liability at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value (being 25,211,740 shares at \$0.25) is recognised in the income statement over the period to conversion using the effective interest method. The coupon on these shares will be recognised in the income statement as interest expense.

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Preference shares – redemption value	6,303	-	-
Proceeds of issue	5,042	-	-
Less costs of the issue	(334)	-	-
Net proceeds	4,708	-	-
Embedded derivative (note 13)	565	-	-
Liability at date of issue	4,143	-	-
Cumulative amortisation since issue	83	-	-
Liability at end of period	\$4,226	\$ -	\$ -

The effective interest rate on the liability at 30 June 2014 was 18.9% taking into account costs of issue. The liability has been classified as non-current because the preference shares convert in 2017.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Forward foreign exchange contracts	-	-	31
Option embedded in the preference shares	(300)	-	-
Asset / (liability)	(\$300)	\$ -	\$31

The mandatory convertible preference share has the characteristics of both a bond-like security and an embedded option:

- The bond like component promises the preference shareholders the payment of a coupon of 5%, payable on a 6 monthly basis, in arrears;
- The embedded option component provides the preference shareholders with the ability to benefit if the share price of the Company's ordinary shares is above \$0.25 at the conversion date.

The embedded option derivative is initially recognized at fair value and is subsequently re-measured. Changes in the fair value are recorded in the income statement as a "finance cost".

The key variables applied in the assessment of the value of the embedded option are:

	30 Jun 2014	On issue
Exercise price	\$0.25	\$0.25
Risk free rate	4.1%	3.9%
Ordinary shares – market price	\$0.12	\$0.15
Volatility of share price	47% to 53%	47% to 53%
Expiry date	19 May 2017	19 May 2017

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Embedded option at fair value at date of issue	565	-	-
Change in fair value	(265)	-	-
Embedded option value at end of period	\$300	\$ -	\$ -

14. CONTRIBUTED EQUITY

	Six months ended 30 Jun 14 Shares	Six months ended 30 Jun 13 Shares	6 months ended 30 Jun 14 \$000s	6 months ended 30 Jun 13 \$000s
Ordinary shares				
Ordinary shares – fully paid (a)	126,373,117	115,458,703	114,273	112,888
Ordinary shares – partly paid (b)	5,051,246	4,321,503	25	60
US employee share options (c)	288,647	326,147	-	-
Other equity securities				
Share warrants (d)	5,300,000	-	-	-
Total contributed equity	137,013,010	120,106,353	\$114,298	\$112,948

(a) Ordinary shares

	Six months ended 30 June 2014 Shares	Six months ended 30 June 2013 Shares	Six months ended 30 June 2014 \$000s	Six months ended 30 June 2013 \$000s
Opening balance of ordinary shares on issue	126,058,703	80,766,450	114,289	108,495
Issues of ordinary shares during the period:				
- March 2013 issues at 13 cents for cash	-	16,000,002	-	2,080
- May 2013 Share Purchase Plan at 13 cents for cash	-	3,923,021	-	510
- June 2013 issues at 13 cents for cash	-	14,769,230	-	1,920
- June 2014 issues at 11 cents for cash	314,414	-	34	-
- Share issue costs	-	-	(50)	(117)
Ordinary fully paid shares on issue at period end	126,373,117	115,458,703	114,273	\$112,888

All ordinary shares are authorised and have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

(b) Ordinary shares – part paid

Partly paid shares on issue at start of period	3,790,659	1,959,926	19	49
Issued	1,260,587	2,443,330	6	12
Lapsed	-	(81,753)	-	(1)
Surrendered	-	-	-	-
Ordinary part paid shares on issue at period end	5,051,246	4,321,503	25	\$60

Issue Date	Earliest date to exercise	Expiry exercise date	Share hurdle price (cents)	Partly paid share price (cents)	Balance payable on exercise (cents)	Outstanding at June 2014 (numbers)	Outstanding at June 2013 (numbers)
10 Aug 2010	10 Aug 2013	10 Aug 2015	*163.85	*163.85	*163.35	-	530,844
6 Dec 2011	6 Dec 2013	6 Dec 2016	25.56	25.56	25.06	1,347,329	1,347,329
15 Apr 2013	15 Apr 2015	15 Apr 2018	17.25	17.25	16.75	807,665	807,665
24 Jun 2013	24 Jun 2016	24 Jun 2018	16.29	16.29	15.79	1,635,665	1,635,665
18 Jun 2014	18 Jun 2016	18 Jun 2018	14.224	14.224	13.724	1,260,587	-

* Adjusted for the cash issue in February 2011 (in accordance with the Wellington Part Paid Share Scheme) and the 20 for 1 share consolidation on 30 June 2011.

14. Contributed Equity (continued)

(c) US employee share option

	Six months ended 30 June 2014 (numbers)	Six months ended 30 June 2013 (numbers)
Options outstanding at start of period	288,647	37,500
Granted	-	288,647
Exercised	-	-
Lapsed	-	-
Outstanding at end of period	288,647	326,147

The June 2010 Annual Meeting approved the establishment of the United States Share Option Plan and authorised the issue of up to 3,000,000 options. Further details of U.S. employee share options granted are:

Grant Date	Expiry date	Exercise price (cents)	Outstanding at June 2014 (numbers)	Outstanding at June 2013 (numbers)
10 Aug 2010	10 Aug 2014	* 247	-	*37,500
24 Jun 2013	24 Jun 2017	16.9	288,647	-

* Adjusted for the 20 for 1 share consolidation on 30 June 2011.

(d) Share warrants

In September 2013, the Company issued 5,300,000 share warrants to East West Manufacturing LLC. The warrants allow East West Manufacturing LLC to acquire additional ordinary shares in the Company at 20 cents per share by September 2015.

15. CONTINGENCIES AND COMMITMENTS

The company has been notified of a claim in respect of a discontinued ventilation motor product. The ventilation motor claim is being discussed with the customer in question. Current legal advice is that the Company is in a strong position contractually to reject any claim. It is not possible to quantify the amount of any possible future settlement and accordingly no provision has been made. There are no other material contingent liabilities, contingent assets or capital commitments (December 2013:\$nil).

16. RELATED PARTY TRANSACTIONS

(a) Directors

The names of persons who are directors of the Company are on page 23.

(b) Key management personnel and compensation

Key management personnel compensation for the six months ended 30 June 2014 and six months ended 30 June 2013 is set out below. The key management personnel comprises of the Directors including the Chief Executive Officer (CEO) and all the senior executives that report directly to the CEO.

	Six months ended 30 Jun 14 \$000s	Six months ended 30 Jun 13 \$000s
Salaries, fees and other short term benefits	899	917
Share based remuneration	20	46
Directors remuneration	84	82
Total	\$1,003	\$1,045

(c) Transactions

During the period the Parent purchased and sold stock to and from its subsidiaries and advanced loans to its subsidiaries. In presenting the condensed interim financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business, provided on commercial terms and are repayable on demand in cash.

17. RECONCILIATION OF LOSS AFTER TAX TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	Unaudited Six Months Ended 30 Jun 2014 \$000s	30 Jun 2013 \$000s	Audited Year Ended 31 Dec 2013 \$000s
Loss after taxation for the period	(1,992)	(1,756)	(3,768)
Depreciation and amortisation	206	268	518
Impairment of plant, equipment & intangibles	-	-	318
Loss/(gain) on disposal of plant & equipment	-	-	3
Share based payments	20	64	115
Preference shares – amortisation and change in fair value of embedded option	(182)	-	-
Inventory provision movements	(142)	(102)	(401)
Provision for doubtful debt movements	(25)	(130)	(168)
Provision for warranty movements	(75)	(124)	(243)
Provision for restructuring movements	(195)	(357)	(284)
Net foreign exchange differences	(327)	470	(351)
Decrease / (increase) in trade and other receivables	1,554	(1,263)	795
(Increase) / decrease in inventories	(703)	1,301	952
Increase in trade and other payables	43	2,162	78
Net cash (outflow) / inflow from operating activities	(\$1,818)	\$533	(\$2,436)

18. EARNINGS PER SHARE

(i) Basic

A basic earnings per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 Jun 14 \$000s	Six months ended 30 Jun 13 \$000s
Loss attributable to equity holders of the Company	(\$1,992)	(\$1,756)
Weighted average number of ordinary shares on issue (thousands)	126,061	93,932
Basic earnings per share - cents	(1.58)	(1.87)

(ii) Diluted

A diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options.

	Six months ended 30 Jun 14 \$000s	Six months ended 30 Jun 13 \$000s
Loss attributable to equity holders of the Company	(\$1,992)	(\$1,756)
Weighted average number of ordinary shares on issue (thousands)	126,061	93,932
Adjustment for partly paid shares or share options	-	-
Diluted earnings per share – cents	(1.58)	(1.87)

As at 30 June 2014, the following instruments existed that are, or were potentially dilutive of future earnings per share, but were not included in the calculation of dilutive shares for the period because the effect in that period would have been antidilutive:

	Number of shares
Part paid shares issued 6 December 2011	1,347,329
Part paid shares issued 15 April 2013	807,665
Part paid shares issued 24 June 2013	1,635,665
Part paid shares issued 18 June 2014	1,260,587
US Employee share options	288,647
Share warrants issued to East West Manufacturing LLC	5,300,000
Convertible preference shares issued with no fixed price of conversion	25,211,729

19. FAIR VALUE MEASUREMENT

The carrying value of all balance sheet financial instruments approximates their fair value. Derivatives are carried at fair value. Receivables and payables are short term in nature and therefore approximate to their fair value. Interest bearing bank deposits and bank finance facilities re-price between every 1 to 90 days and are therefore approximate to their fair value.

The Group's derivatives are over-the-counter derivatives and are classified as tier 2 financial instruments under NZIFRS 7, meaning that their fair value is estimated using present value and other valuation techniques based on observable market rates. (Refer to note 13 for key valuation variables).

Directory

Directors

Tony Nowell, *Chairman*
Shawn Beck
Simon Mander
Dr Lisbeth Jacobs
Gottfried Pausch

Senior Staff

Greg Allen, *Chief Executive Officer*
Steven Hodgson, *Senior Vice President Commercial*
David Howell, *Chief Technical Officer*
Howard Milliner, *Chief Financial Officer*
Ali Karahasanoğlu, *Sales Director, Europe, Middle East & Africa*
Erick Layseca-Flores, *Business Development Director, Latin America*
Gerardo Gonzalez, *VP Intelligent Systems Business Unit*
Clayton Thomas, *Sales and Marketing Director Asia-Pacific*
Ron Jackson, *Secretary*

Phone/Fax

Ph: 64-9-477 0415
Fax: 64-9-479 5540

Internet

Website: www.wdtl.com, www.airmovent.com
Email: info@wdtl.com

Addresses

21 Arrenway Drive, Rosedale
North Shore City 0632, New Zealand
PO Box 302-533, North Harbour
Auckland 0751, New Zealand

Registered Office

21 Arrenway Drive, Rosedale
North Shore City 0632, New Zealand

Auditors

PricewaterhouseCoopers
188 Quay Street, Auckland, New Zealand

Bankers

Bank of New Zealand

Share Registry

Computershare Investor Services Ltd
Private Bag 92119, Auckland 1142
New Zealand



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www.wdtl.com

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