



Annual Report 2011

Our advanced motors are used by some of the world's largest companies to save energy and dramatically improve efficiency.

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There are statements in this document that are "forward-looking statements". As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Wellington, its operations, the markets in which it competes and other factors (some of which are beyond the control of Wellington). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. In particular, Wellington's operations and results are significantly influenced by the extent to which energy efficient motor technology is promoted in Wellington's key markets, competitor product development and demand and pricing, fluctuations in key commodity prices or costs in the countries of Wellington's suppliers, availability of key components, relative exchange rates and profitability of customers, all of which can have a substantial impact on Wellington's results of operations and financial condition. Other risks include customer concentration risk and misuse of Wellington's intellectual property.

Key Points

Restructuring delivering cost reduction, inventory reduction and cash flow improvements



25%
Revenue Growth



Improved underlying
Gross Margin



\$10.9 million
improvement in cashflow



\$3.3 million
Inventory Reduction

Operating Revenue up 25%
to \$35 million

.....

Achieved an underlying
Gross Margin of 11%

.....

Operating Cash flow reduced from
-\$17.4 million to -\$6.5 million

.....

Inventory reduced by \$3.3 million
to \$10.9 million

Global Customer Solutions Network

Wellington provides products and services to some of the world's largest retail brand names and refrigeration equipment manufacturers. The company is proud to provide a global network of skilled people to meet customers' needs with electronic motors that provide innovative and energy saving airflow solutions. This includes supporting customers in the development of their supply chain and technology roadmaps. Wellington has embarked on major supply chain initiatives to shorten customer lead-times and reduce total supply chain cost, with the goal to take supply chain service and cost performance to the next level.



Report of the Chairman and the Chief Executive Officer

2011 in Review

For the year ended 31 December 2011 Wellington Drive Technologies Limited report revenue of \$35.0 million, a 25% increase over 2010, resulting from continued strength in the customer value proposition and acceptance of the product range by key international customers.

Wellington's commercial refrigeration products demonstrated continued growth with several new projects underway and revenues of \$24.4 million, compared to \$19.0 million in 2010.

Wellington's US\$ revenue increased by 39% to US\$27.9m with the company experiencing continued strong growth in the America's region (which includes Mexico, Latin America and the USA). 43% US\$ growth in the Americas included new customers and new projects with existing customers.

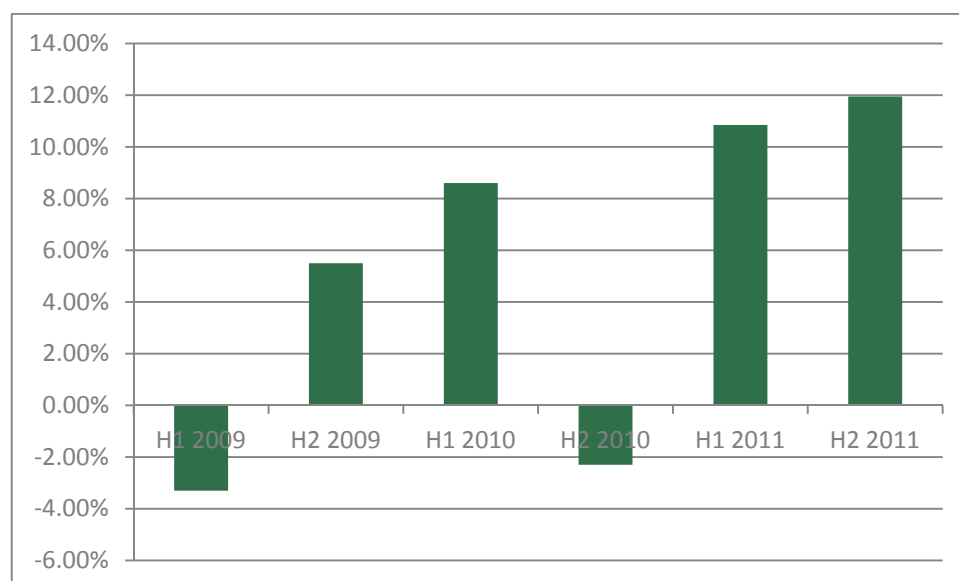
Wellington's European business also demonstrated top line momentum with 52% US\$ growth year on year, although the second half of 2011 saw a noticeable slowdown and some demand push outs as some customers deferred orders into first quarter 2012.

Asia Pacific business showed a 21% decline in US\$ revenues, with the largest Asian OEM customers showing growth, while smaller customers showed significant declines. Commercial focus has to date been on securing the strong growth available in the Americas and Europe, where the company is strongly encouraged by customer feedback on the importance of having the Wellington brand in their end products.

NORMALISED RESULT	Normalised Result 2011 \$000s	Reported Result 2011 \$000s	Last Year Reported Result 2010 \$000s
Revenue	34,985	34,985	28,015
Cost of sales	(33,266)	(33,266)	(27,091)
Restructuring warranty costs	724	-	-
End-of-life inventory provisioning	1,773	-	-
Gross profit	4,216	1,719	924
Other income	155	155	60
Operating expenses (excluding FX)	(13,279)	(13,283)	(12,619)
Foreign exchange	(551)	(551)	(750)
Onerous lease costs	233	-	-
Onerous supply contracts	837	-	-
Restructuring redundancy costs	680	-	-
Loss before interest, tax, depreciation and amortisation (EBITDA)	(7,709)	(11,960)	(12,385)
Depreciation and amortisation	(2,500)	(2,500)	(2,538)
Fixed Assets impaired	200	-	-
Intangibles impaired	752	-	-
Loss before interest and taxation (EBIT)	(9,257)	(14,460)	(14,923)
Finance income	76	76	129
Finance expenses	(88)	(88)	(53)
Loss before income tax	(9,269)	(14,472)	(14,847)
Income tax expense	-	-	-
Loss for the year	(\$9,269)	(\$14,472)	(\$14,847)

A loss for the year of NZ\$14.5 million was disappointing, however 2011 represents an important turning point in the business, with the launch of a restructuring program designed to significantly reduce cost and improve cash. The 2011 result includes non-recurring costs of NZ\$5.2 million, reflecting inventory provisioning and restructuring items related to the previously disclosed wind down of the ventilation business, rationalisation of the refrigeration product range and changes to the group's organisation structure. These restructuring actions and consequent performance improvements, coupled with a change of focus from aggressive revenue growth and scale up of operations towards a more disciplined approach to growth, will deliver a self-funding and sustainable path to profit.

2011 Normalised gross margin from product sales



The product gross margin above removes service and royalty revenue (which was NZ\$265,000 in 2011) from both revenue and gross margin. In 2011, normalised numbers are used.

In 2011 reported gross margin increased from 3% in 2010 to 5%, with second half performance at 7%. In the second half of 2011 the underlying gross margin on product sales was 12%, demonstrating improvement in cost performance. We are targeting a further lift in gross margin to approximately 17% by Quarter Four 2012. The business is focused on five primary strategic initiatives to deliver this result, including changed partnership arrangements with strategic customers and suppliers to deliver supply chain cost reduction and improved operating performance.

The 2011 year closed with \$10.9 million of inventory, a significant reduction from \$14.2 million in the prior year. This reduction was comprised of \$1.6 million from operating performance improvements and \$1.7 million from increased materials provisioning. Inventory reduction initiatives are gaining traction, although this performance is still not reflective of the kind of working capital velocity that the business can deliver. Further inventory reductions of between \$3 million and \$5 million will be targeted by year end 2012, with a view to doubling the company's current level of inventory turns. Achieving best in class inventory turns will be one of Wellington's strategic priorities over the next 24 to 36 months.

During the third quarter of 2011 agreement was reached with ventilation customer Ziehl-Abegg to work with them on an orderly completion of our uneconomic business relationship. This agreement ultimately transfers inventory for manufacture of ventilation products to Ziehl-Abegg and sees Wellington cease manufacturing those products. The transfer of inventory

and manufacturing to Ziehl-Abegg should be complete by the end of April 2012, allowing Wellington to reduce Ventilation products inventory and remove a loss making product line from the business. This change forms part of a wider strategic decision to cease all internal manufacturing and focus efforts on development of a world class outsourced supply chain model.

In November 2011 new CEO Greg Allen was welcomed to the company, bringing considerable international experience in supply chain management, operations management and business development. A New Zealander expatriated for 21 years, Greg's experience in the management of complex and cost focused sourcing, manufacturing and supply chain organisations, operating at global scale with intense customer and commercial management, is an excellent match for the requirements of Wellington as it moves to its next stage of development and growth. Consistent with the global nature of Wellington's business, Greg will focus on supervision of the company's Asian supply chain and key Americas and Europe sales regions from his domicile on the West Coast of North America, while visiting New Zealand frequently to supervise strategy and development with other senior executives and the board.

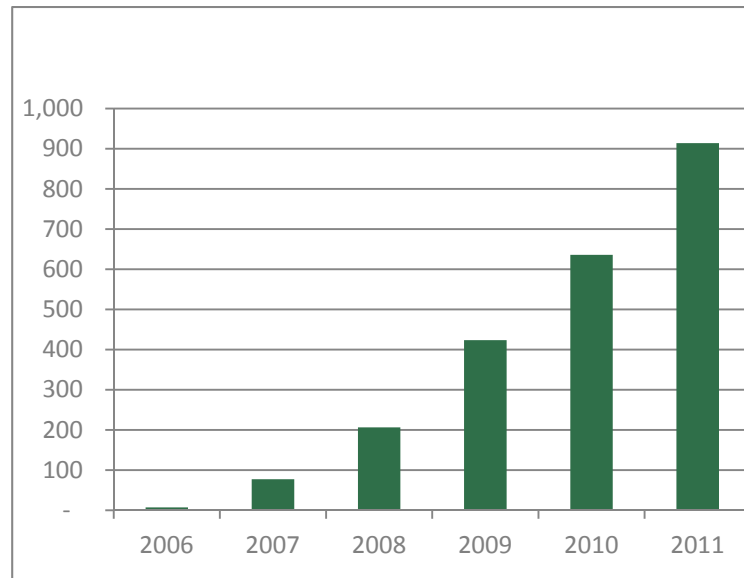
Greg Allen has, in conjunction with the Board, conducted a full strategic review of the business, with the first stage of a corporate redevelopment plan recently approved by the Board to further build on the restructuring decisions taken in 2011. Several actions and changes defined in this plan to significantly lift performance have already begun, including finalisation of operating cost reduction programs; improving supply chain cost performance and increased focus on customer lead-time reduction. The board and management of the company believe that the revised business plan and cash flow forecast for the year ahead will not require the raising of further capital, subject to market conditions being in line with plan assumptions.

A strategic review and redevelopment plan

A major input to the company's redevelopment plan will be feedback from customers and partners. The chief executive is in the process of visiting all of Wellington's major customers and suppliers and will be continuing stakeholder meetings throughout the year ahead. Initial feedback has demonstrated that strong relationships exist between Wellington and its customers, and has also highlighted a number of new opportunities for the business to improve operating performance, strengthen relationships and improve margins.

The core commercial refrigeration business will be the primary market focus in 2012. This segment continued to make progress through 2011, demonstrating strong sales growth (44% growth in volumes of ECR motors) with our strategic customers and improving underlying gross margin performance. The indications are that the sector has significant opportunity for further profitable growth for Wellington, providing a strong platform for a successful business redevelopment.

ECR units sold (000's)



The strategic and operating review will continue through the first quarter of 2012 and is focusing on every area of Wellington business practice, operating process, supply chain and stakeholder relationships. As an initial outcome of this review, the company is progressing with five main strategic priorities that are designed to improve all aspects of business performance.

The five initiatives are:

- Complete the Ventilation business exit and move to an outsourced supply chain
- Reduce supply chain costs and shorten customer lead-times
- Reduce Inventory levels
- Cost reduction through introduction of lean business practices and improved management operating system
- Develop deeper value added relationships with customers and suppliers

Examples of progress already being made:

Ventilation business: We are on track to complete our agreement with Ziehl-Abegg by the end of April 2012. The successful completion of this business will result in reduced inventory levels, lower supply chain costs and enable us to focus on our core refrigeration business segment.

Reduce Inventory Levels: Changing the way customer demand and supply is planned. We have moved from a monthly approach to a weekly planning process, where customer changes are adjusted more frequently and production and deliveries are more accurately matched. This change will introduce leaner business practices and improve inventory performance and customer service.

Improved Management Operating System: We have consolidated USA and Latin America into one America's business region. This will give us common process for all regional operating needs and a single face to the customers in the region. The aim of this change is to reduce operating costs and improve the way we manage our customer relationships.

Outlook

Continued organic growth is expected from existing customers in 2012, and the business is bidding on several new customer projects. Given the economic backdrop, some slow-down is expected in the growth of the European business, and in the Asia Pacific region we will be refocusing on building strategic relationships to support future growth. Continued strength is expected in the America's region, in particular Latin America. The 2012 redevelopment plan foresees year on year revenue growth in the mid-teens, versus the 25% growth recorded in 2011. Overall volume growth in 2012 is forecast to be down from the 34% achieved in 2011, with a target to achieve 15%. The lower growth numbers reflect a reduction in the ventilation business and a more disciplined approach to growth in our core refrigeration market - in particular a shift from growing volume to build scale, to a sharper focus on selected customers and profitable growth.

The distribution network will be rationalised in the year ahead, to reduce the supply chain cost of serving multiple customers and to reduce lead-times in order to become a more efficient company. Further improvement in gross margin will be achieved as unprofitable business is exited and supply chain costs are improved. There will be a stronger focus on improving business processes and a continuous improvement program that is focused on reducing waste and thus reducing costs. The business will be streamlined and simplified.

The company's cash position is forecast to be at its lowest in Quarter One as customers start to increase their demand and Wellington primes the supply chain to support customer needs. From Quarter Two onwards it will increase due to the completion of Ziehl-Abegg project and as a result of our inventory reduction gaining traction.

The company objectives for 2012 are to demonstrate further gross margin improvement to approximately 17% by Quarter Four, improve inventory turns to approximately 4 times, stabilise our cash position to ensure self-sustainability without requiring further capital, and to put the company on the clear path to profitability. A positive EBITDA outcome is not envisaged for 2012, however by the end of the year the company is expected to be operating at a run rate that will lead to a positive result in 2013.

Stakeholder Thanks

The Wellington board and executive management team would like to thank our shareholders, employees, customers and suppliers for their support. The entire organisation is dedicated to improving the performance of Wellington Drive and we could not do it without your support.

The board would also like to thank Dr Ross Green, who announced his decision to retire from the company, for his years of dedicated and tireless service to the development of the Wellington brand and its unarguable position in global markets.



Tony Nowell
Chairman



Greg Allen
Chief Executive Officer

Directors

Tony Nowell - Chairman



Mr Nowell was appointed a director of Wellington in March 2010 and Chairman in December 2010. He is an experienced company leader in major New Zealand and international businesses and also Chairs Scion (the Forest Research

Institute of New Zealand) and New Zealand Food Innovation (Auckland). He is Deputy Chair of Leadership New Zealand, a board member of Food Standards Australia New Zealand, a New Zealand representative on the APEC Business Advisory Council, a member of the Export Advisory Board of Business New Zealand and was formerly Chief Executive of Zespri International, and Griffin's Foods Limited. Prior to returning to New Zealand business in 2000 from an extended period of international business experience, Mr Nowell was Regional Vice President of Sara Lee Asia, President Director of Sara Lee Indonesia and President Director of L'Oreal Indonesia.

Dr Richard (Rick) Boven



Dr Boven is a professional strategist, management consultant and company director with experience in the United States and Australia, as well as New Zealand, in the areas of industry evolution, business strategy, and

operational effectiveness. Dr Boven is the Director of The New Zealand Institute, a past director of ASB Bank and Sovereign Insurance and an ex-partner with the Boston Consulting Group. He has been a Director of Wellington since December 2007 and was Chairman from March 2008 to December 2010.

Dr Ray Thomson



After graduating with a doctorate in Physics, Dr Thomson worked as an investment analyst in share broking and investment companies from 1979 to 1999. He has served as a director of a number of public and

private companies; is a director of Manuka Health New Zealand Ltd and Industrial Research Ltd. Dr Thomson has a strong involvement in the angel investment community, being on the Auckland Ice Angel Advisory Board and on the Angel Association New Zealand Council. He has been a director of Wellington since 1988.

Mr Shawn Beck



Mr Beck is a previous Executive Director of Pencarrow Private Equity Ltd, having been a founding director in 1993. Over the last 19 years, he has served on 15 boards in a wide range of industries, including specialty

manufacturing, retail, road transport, aviation transport, media, engineering consulting and food. He has been a director of Wellington since 1994.

Mr Simon Mander



Mr Mander is a qualified mechanical engineer. He has extensive corporate experience in several industries including FMCG, industrial goods, petroleum/ petrochemical and heavy industry in Asia, Australia and New

Zealand. The Managing Director of a specialist packaging export business, Mr Mander has been a director of Wellington since 2004.

Senior Management

Greg Allen



Mr Allen was appointed CEO of Wellington Drive in November 2011. Prior to joining Wellington Mr Allen spent 23 years working internationally leading business development, supply chain and manufacturing organizations in Europe, North America and Asia. He is an experienced operational and business leader, having most recently been responsible for the Industrial and Green Technology business unit for Celestica, a highly regarded multinational supply chain services provider. Prior to Celestica Mr Allen led a Canadian public company focused on VOIP products and also held senior roles with global contract manufacturing and engineering services

companies. Originally from New Zealand, and with a technical background gained from six years in the New Zealand armed forces, Mr Allen brings to Wellington a broad market experience covering many industrial segments such as telecommunications, aerospace, capital equipment, consumer products and enterprise computing.

Steve Hodgson – Chief Financial Officer



Mr Hodgson joined Wellington in August 2008 with initial responsibility for investor relations, capital market activities, and all aspects of corporate strategy. On 2 April 2009, Mr Hodgson was appointed Vice President Corporate Services (this title was changed to Chief Financial Officer in 2010), with responsibility for supporting the Chief Executive Officer and the Board in developing and executing strategic plans, leading the corporate services team (finance, IT, legal, and human resource functions), and managing investor relations and funding programmes. Prior to joining Wellington, Mr Hodgson worked in equities research for 20 years and most recently was the Head of Research for Macquarie

Securities in New Zealand from 2003 to 2008. Mr Hodgson has been a significant personal shareholder in Wellington for over a decade. He holds a BMS (Hons) from Waikato University with majors in accounting and economics.

David Howell – Chief Technical Officer



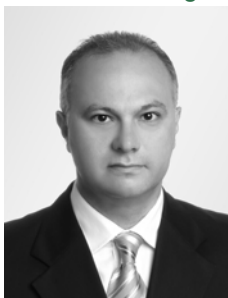
Mr Howell joined Wellington as Engineering Manager in 1999 and is currently responsible for all aspects of Wellington's future technology roadmap and the company's product development processes in his role as Chief Technology Officer. He has previously worked in new product development roles for Rover Group (UK), Fisher and Paykel Healthcare Corporation Ltd, and Tru-Test Ltd. David is a chartered (CPEng & IntPE) mechanical engineer, holds a BE (Hons) and DipBus from The University of Auckland and an MSc from Cranfield (UK), and is currently working towards a PhD in product development management. Mr Howell is listed as inventor on 12 families of international patent applications, including several of Wellington's core patents.

Mr Lim Kee Seng – Chief Operations Officer



Mr Lim was appointed the Chief Operations Officer for Wellington Manufacturing Group Singapore Pte Ltd in September 2010. He was the General Manager of Singapore Operations for Celestica, an EMS manufacturing company with revenues of US\$6 billion from 2008 to 2010. He has extensive experience with electronics manufacturing in the Asian region. He has overall responsibility for all our manufacturing and supply chain operations as well as managing Asia sales.

Ali Karahasanoglu – Sales Director EMEA



Ali Karahasanoglu has received his BS degree in Electrical Engineering on power electronics division and studied Pre-MBA at Temple University, USA. He had worked several industries; IT, heating, refrigeration, home appliances as Project Development Engineer, Service Engineer, Regional Sales Manager and Sales & Marketing Manager. Since joining Wellington in 2002 he has served in different functions within the organisation – distribution, business development, Turkey/Eurasia subsidiary company setup and management (since 2006), refrigeration business unit management and recently he has been Sales director of Europe, Middle East and Africa region since 2008.

Erick Layseca – Business Development Director Latin America



Mr. Layseca graduated as an Industrial and Systems Engineer. He was a shareholder in a Dairy Consulting Company, in which he actively participated and gained extensive experience in business development. He then moved on to one of the world's fifth largest bottle cooler manufacturers, where he was in charge of the areas of Supplier Development and International Commerce. He has been working at Wellington, as a Business Development Director of Latin America since 2006.

Corporate Governance

The Board of Wellington Drive Technologies Limited is committed to acting with integrity and expects high standards of behaviour and accountability from all its officers and staff.

Role of the Board

The Board's primary objective is the enhancement of shareholder value by following appropriate strategies, and ensuring effective and innovative use of available Company resources. The Board is responsible for the management, supervision, and direction of the Group. Day-to-day management of the Group is delegated to the Chief Executive.

Compliance

The governance principles adopted by the Board are designed to meet best practice recommendations for listed companies to the extent that it is appropriate to the size and nature of Wellington's operations. The Board endorses the overall principles embodied in the N.Z. Stock Exchange Corporate Governance Best Practice Code. In a number of respects the Company's practice differs from this Code. In particular, the Company has not established a nomination committee, believing these matters are being properly dealt with at the full Board level.

Board Meetings

The Board normally meets nine to eleven times each year for scheduled meetings. Additional meetings are held where specific matters require attention between scheduled meetings. Board meetings are used to monitor, challenge, develop, and fully understand business and operational issues.

Composition of the Board

The Constitution provides that there will be not less than three and not more than eight directors. N.Z. Stock Exchange requirements are that at least two directors or one-third, are independent directors. The Board has five directors, four of whom are independent. Profiles of Directors are given on Page 9.

Criteria for Board Membership

When a vacancy arises, the Board identifies candidates with a mix of capabilities and perspectives considered necessary for the Board to carry out its responsibilities effectively. A director appointed by the Board must stand for election at the next Annual Meeting. At each Annual Meeting one-third of directors must retire by rotation. Retiring directors are eligible for re-election.

Non-executive Directors' Remuneration

The fees payable to non-executive directors are determined by the Board within the aggregate amount approved by shareholders. The Board considers the advice of independent remuneration consultants when setting remuneration levels. The current directors' fee pool limit is \$200,000 (excluding the CEO) which was approved by the shareholders at the 14 November 2006 annual meeting of shareholders.

Details of the remuneration paid to directors are disclosed on Page 14 in the Financial Statements.

Board Committees

The Board has established two committees to guide and assist the Board with overseeing certain aspects of corporate governance. These committees are the Audit and Risk Committee and the Executive Appointment and Remuneration Committee. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

Audit and Risk Committee

The Audit and Risk Committee operates under a charter approved by the Board and is accountable to the Board for: the business's relationship with, and the independence of, the external auditors; the reliability and appropriateness of the disclosure of the financial statements and external financial communication; and the maintenance of an effective business risk management framework including compliance and internal controls.

The committee also approves any non-audit work carried out by the Company's auditors and ensures that the lead partner in the audit firm is rotated every five years.

The committee is composed of three non-executive directors, two of whom are independent. The current members are Dr Ray Thomson (Chairman), Dr Rick Boven and Simon Mander.

Executive Appointment and Remuneration Committee

The Executive Appointment and Remuneration Committee operates under a charter approved by the Board and is accountable to the Board for the remuneration and appointment of the senior executive team, management succession planning, reviewing and approving compensation arrangements, establishing employee incentive schemes and the remuneration of the Board. The committee also advises on proposals for significant company-wide remuneration policies and programmes. In carrying out this role, the sub-committee operates independently of senior management of the Company, and obtains independent advice on the appropriateness of the remuneration packages.

The current members are Tony Nowell (Chairman), Shawn Beck and Dr Rick Boven.

Trading in shares

Wellington is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations.

Wellington has a detailed insider trading policy applying to all directors and employees. No director or employee may use confidential unpublished price sensitive information in his or her position to engage in securities trading for personal benefit or to provide benefit to any third party. Short term trading in Wellington shares and buying or selling (while in possession of unpublished price-sensitive information) is strictly prohibited.

All directors and employees must obtain consent to trade in securities prior to trading. All members of the Board need to consent to the application. Once these consents have been received the Chairman of the Wellington Board or (where the Chairman is unavailable) the Chairman of the Board's Audit & Risk Committee, will approve or decline the application. The Company monitors trading and reports any share movements to the Board at every meeting.

Relationship with the Independent Auditor

The Company has adopted a policy to ensure that audit independence is maintained, both in fact and appearance, such that Wellington's external financial reporting is viewed as being highly reliable and credible. The policy covers the following areas:

- The external auditor must remain independent of the Company at all times and comply with the New Zealand Institute of Chartered Accountants' (NZICA) Code of Ethics;
- The external auditor must monitor its independence and report to the Board that it has remained independent;
- Guidelines in relation to the provision of non-audit services by the external auditor in order that the provision of such services does not impair the external auditor's independence or objectivity;
- The audit firm may be permitted to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the Audit and Risk Committee; and
- The Audit and Risk Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor, and the value of non-audit work must be reported at every board meeting.

Statutory Information

Introduction

Directors have resolved that no dividend be declared payable.

Audit fees received or due and receivable by PricewaterhouseCoopers are \$100,000 (2010 - \$85,000).

The Company does not have a credit rating.

Directors and Employees

The Directors express their appreciation to the staff of the Company for their commitment and effort in commercialising and promoting Wellington's motor technologies and products over the past year. In accordance with the Company's Constitution, Dr R. Boven and Mr T. Nowell retire and, being eligible, offer themselves for re-election at the Annual Meeting. As of the date of this Annual Report no other director nominations have been received.

Remuneration of Directors

During the year the following remuneration was paid or payable to directors:

	2011	2010
Mr T. Nowell	\$50,000	^{1.} \$24,450
Dr R. Boven	\$28,000	\$49,284
Mr S. R. Beck	\$28,000	^{2.} \$28,000
Dr. R. J. Thomson	\$28,000	\$28,000
Mr S. J. Mander	\$28,000	\$28,000
Dr R. M. Green	^{3.} \$183,172	\$373,492

Notes

1. Tony Nowell was appointed a director in March 2010.
2. Paid to Pencarrow Private Equity Ltd for services rendered by Mr S.R. Beck as a director of the Company.
3. Dr Green resigned as a director on 28 June 2011. Remuneration shown is to the date of his resignation.

Interested Transactions

The Directors have disclosed the following transactions with the Company:

- Interested Transactions – There have been no transactions during the year with interested or related parties.
- Directors' Remuneration – Remuneration details of Directors are provided above.
- Indemnification and insurance of officers and directors – The Company indemnifies directors and executive officers of the Group against all liabilities which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance. The total cost of this insurance expensed during the year ended 31 December 2011 was \$29,417 (2010 - \$25,123).
- Directors' Share Transactions – In February 2011 the Green Family Trust sold 1,775,000 shares to interests associated with Tony Nowell for \$29,288.

Also in February 2011, pursuant to the Company's Simplified Disclosure Prospectus dated 6 January 2011, the following directors (or Trusts in which they have interests) were successful in applying for further shares (at 1.25 cents each): the Shawn Beck Trust – 2,796,520 shares; Rick Boven – 699,097 shares; the Boven Family Trust – 1,203,875 shares; Gurkha Trust – 14,838,920 shares; Waikiwi Trust – 18,048,891 shares and Green Family Trust – 4,608,698 shares.

In June 2011, Wellington completed a share consolidation whereby every 20 existing shares held in Wellington on June 30th 2011, were consolidated into one share.

In October 2011 the Gurkha Trust purchased 144,725 shares on market for 17 – 20 cents per share.

In November 2011 the Gurkha Trust purchased 7,000 shares on market for 22 cents per share.

In December 2011 the Gurkha Trust purchased 127,760 shares on market for 24.2 cents per share. The Shawn Beck Trust purchased 50,000 shares on market for \$11,005.

No other directors acquired or disposed of any shares in the Company during the year.

- Directors' Loans - There were no loans by the Company to Directors.
- Key management Share Transactions – In February 2011 key management purchased 17,949,161 entitlements under the Company's Simplified Disclosure Prospectus. As noted above, the Green Family Trust sold 1,775,000 shares to interests associated with the Chairman, Tony Nowell. In June 2011, Wellington completed its 20 to 1 share consolidation. Post consolidation, 70,000 ordinary shares were acquired by the new CEO. Also during the year, key management were granted 1,472,329 part paid shares. At year end, key management held 1,638,533 ordinary shares, held 1,880,901 part paid shares and held 500,000 US share options. Further details of part paid shares and options can be found in Note 24.

The Board received no notices during the year from directors requesting to use Company information received in their capacity as directors which would not otherwise have been available to them.

Directors' Shareholding

Ordinary shares	31 December 2011		31 December 2010	
	Total Relevant Interest	Direct	Total Relevant Interest	Direct
Mr T. Nowell	88,750	-	-	-
Mr S. R. Beck	300,572	-	2,214,914	-
Dr R. Boven	120,388	69,910	1,902,972	699,097
Dr R. J. Thomson	3,253,960	-	26,601,688	-
Dr R. M. Green	n/a ^{1.}	n/a ^{1.}	4,608,698	-

- Notes
1. Dr Green resigned as a director on 28 June 2011. At 31 December 2010 Dr Green had a relevant interest in 3,400,000 partly paid shares – see note 24 for further details.
 2. Dr R.J. Thomson has interests in shareholders Gurkha and Waikiwi Trusts listed on page 17.

Employees

The number of employees, other than Directors, within the Group receiving remuneration and benefits above \$100,000, as is required to be disclosed in accordance with section 211(1)(g) of the Companies Act 1993, is indicated in the following table.

	GROUP		PARENT	
	2011	2010	2011	2010
\$100,000 - \$109,999	-	4	-	3
\$110,000 - \$119,999	2	2	1	1
\$120,000 - \$129,999	-	2	-	1
\$130,000 - \$139,999	4	3	2	2
\$140,000 - \$149,999	1	1	1	-
\$150,000 - \$159,999	3	-	1	-
\$160,000 - \$169,999	2	1	1	1
\$170,000 - \$179,999	1	1	1	1
\$190,000 - \$199,999	-	2	-	1
\$200,000 - \$209,999	-	1	-	-
\$210,000 - \$219,999	1	-	-	-
\$240,000 - \$249,999	1	-	-	-
\$330,000 - \$339,999	-	1	-	-
\$380,000 - \$389,999	1	-	-	-

NZX Waivers

In accordance with NZ Stock Exchange Listing Rule 10.5.3(f) the following waivers were granted by the NZ Exchange during the year ended 31 December 2011:

- Waiver dated 12 October 2011: Termination Arrangements with Ziehl-Abegg AG ("Ziehl") – Listing Rule 9.1.1. To enable the Company to terminate its existing supply and distribution agreements with Ziehl including, the completion of final orders for ventilation motors, supplying replacement components, the exchange of certain motors without cost in return for a waiver of all warranty obligations and granting an exclusive licence to manufacture and distribute the motors developed by Wellington for Ziehl. Further details of this waiver can be found on the NZX website at: <https://www.nzx.com/companies/WDT/announcements/214955>
- Waiver dated 24 March 2011: Redemption of Part Paid Shares – Listing Rule 7.6.1. To enable the Company to redeem and cancel partly paid shares in accordance with its Partly Paid Share Scheme. Further details of this waiver can be found on the NZX website at: <https://www.nzx.com/companies/WDT/announcements/207230>

Auditors

In accordance with Section 200 of the Companies' Act 1993, the auditors, PricewaterhouseCoopers, continue in office.

For and on behalf of the Board

A handwritten signature in blue ink, appearing to read 'T. Nowell', with a stylized flourish at the end.

T. Nowell
Chairman
28 February 2012

Shareholder Information

Shareholders

As at 31 December 2011 there were 2,679 shareholders and 67,366,450 fully paid ordinary shares on issue.

Share Issues

On 6 January 2011 the Company registered a Simplified Disclosure Prospectus. Under the terms of this document, a renounceable offer to existing shareholders was made of one ordinary share for one ordinary shares held, up to a maximum of 673,663,985 ordinary shares at 1.25 cents each. The offer closed on 2 February 2011, oversubscribed with applications for 811,755,300 new shares. On 4 February 2011 673,663,985 shares were issued in accordance with the Simplified Disclosure Prospectus. Refunds for oversubscriptions received were made in the week ending 11 February 2011. This resulted in the issue of the full 673,663,985 new shares and raised \$8,420,800 before issue costs.

On 13 June 2011 the Company announced a share consolidation whereby every 20 existing shares held in Wellington on June 30th 2011 would be consolidated into one share. As a result of the Consolidation, the number of shares on issue in Wellington reduced from 1,347,327,970 shares to 67,366,450 shares.

Shareholder Details

The ordinary shares of Wellington Drive Technologies Limited are listed on the New Zealand Stock Exchange. The information in the disclosures below have been taken from the Company's registers at 16 February 2011:

20 largest shareholders

1.	N.Z. Central Securities Depository Ltd	30,201,831
2.	Investment Custodial Services Ltd	2,690,187
3.	Waikiwi Trust *	1,644,889
4.	Gurkha Trust*	1,609,071
5.	Jangada Trust	995,913
6.	Flynn No 2 Trustees Ltd	928,138
7.	Tane Nui Family Trust	900,000
8.	Wairahi Trust	818,143
9.	Meta Capital Ltd	782,766
10.	Diab Investment NZ Ltd	755,215
11.	FNZ Custodians Ltd	750,814
12.	Wairahi Holdings Ltd	700,000
13.	K.F. Bennett	622,957
14.	Graham Trustees Ltd	621,094
15.	M.J. Springford	500,000
16.	I. Douglas Trust	458,326
17.	Coldham Trust	384,196
18.	J. Whale Family Trust	374,209
19.	Green Family Trust	372,120
20.	R.B. Whale Trust	371,312

Note 1. N.Z. Central Deposit Securities Depository Limited hold shares on trust for 10 different shareholders. The largest of these are: JPMorgan Chase Bank NA – 18,468,975 shares; Accident Compensation Corporation – 4,914,085 shares; TEA Custodians Ltd – 3,040,172 shares; HSBC Nominees (N.Z.) Ltd a/c State Street – 1,816,805 shares; Newburg Nominees Ltd – 788,888 shares; Cogent Nominees (NZ) Ltd – 711,284 shares; HSBC Nominees (N.Z.) Ltd – 338,777 shares.

* Dr R.J. Thomson (a director) has interests in the above shareholders.

Distribution of Equity Securities

Size of Holdings (at 16 February 2011)			Shareholders		Fully Paid Ordinary Shares	
			Number	%	Number	%
1	-	999	1,195	44.72	423,971	0.63
1,000	-	1,999	325	12.16	438,498	0.65
2,000	-	4,999	418	15.65	1,300,315	1.93
5,000	-	9,999	255	9.55	1,737,400	2.58
10,000	-	49,999	368	13.77	7,524,415	11.17
50,000	-	99,999	55	2.06	3,405,174	5.05
100,000	-	499,999	41	1.53	8,015,659	11.90
500,000	-	999,999	11	0.41	8,375,040	12.43
over		1,000,000	4	0.15	36,145,978	53.66
			2,672	100.00	67,366,450	100.00

2,539 (or 95.01%) shareholders, holding 64,555,109 shares (or 95.85%) reside in New Zealand.

Substantial Security Holders

Pursuant to section 26 of the Securities Markets Act 1988, details of substantial security holders and their total relevant interests as per their most recent notices are:

Name	Number of shares [#]	Date of Notice
Accident Compensation Corporation	38,254,013	01 Apr 2010
Hunter Hall Investment Management Ltd	171,023,450	22 Sep 2010
Harbour Asset Management Ltd	153,784,857	08 Mar 2011

[#]Number of shares is taken from notices received. No adjustments have been made for changes that may have subsequently occurred from the dates of notices stated. Nor has adjustment been made for the June 2011 20:1 share consolidation. The definition of "relevant interest" in the Securities Markets Act 1988 provides that more than one relevant interest can exist in respect of the same securities.

Shareholder Enquires

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the Directory on page 54. Notification must be in writing. Questions relating to shareholdings should also be addressed to Computershare Investor Services Limited. For information about the group please contact the Company at the registered office by sending an email to info@wdtl.com or visit our website <http://www.wdtl.com>.

Announcements to Shareholders

The Company has established an email list of shareholders that want to receive announcements made by Wellington Drive to the New Zealand Stock Exchange. Announcements are emailed to shareholders who wish to receive them shortly after they are released. This will include the Annual Meeting addresses. If you want to be added to this listing please email info@wdtl.com and advise us of your email address. Your email details will be kept confidential.

Announcements are also posted on our website www.wdtl.com normally the day after they are released.



Independent Auditors' Report to the shareholders of Wellington Drive Technologies Limited

Report on the Financial Statements

We have audited the financial statements of Wellington Drive Technologies Limited on pages 21 to 53, which comprise the balance sheets as at 31 December 2011, the statements of comprehensive income and statements of movements in equity and cash flow statements for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Wellington Drive Technologies Limited or any of its subsidiaries other than in our capacities as auditors, tax advisors and providers of other assurance services. These matters have not impaired our independence as auditors of the Company and Group.

Opinion

In our opinion, the financial statements on pages 21 to 53:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 31 December 2011, and their financial performance and cash flows for the year then ended.

Emphasis of Matter

We draw attention to note 2 (a) to the financial statements which describes the basis on which the Directors have adopted the going concern assumption.

The financial statements have been prepared on a going concern basis which is dependent on the ability of the Group to achieve forecasted cash flows, the outcome of which is inherently uncertain, and additional shareholder or alternative funding may be required to enable the Group to continue as a going concern. These conditions indicate the existence of a material uncertainty in relation to the Group's ability to continue as a going concern.

The financial statements do not include adjustments that would result if the Group was unable to continue as a going concern.

Our opinion is not qualified in respect of this matter.

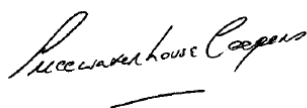
Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.



Chartered Accountants
28 February 2012

Auckland

Statements of Comprehensive Income

for the year ended 31 December 2011

		CONSOLIDATED		PARENT COMPANY	
	Note	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Revenue	7	34,985	28,015	33,452	28,986
Cost of sales		(33,266)	(27,091)	(30,510)	(26,876)
Gross profit		1,719	924	2,942	2,110
Other income	8	155	60	194	679
Operating expenses	9	(16,334)	(15,907)	(16,021)	(17,005)
Loss before interest & taxation		(14,460)	(14,923)	(12,885)	(14,216)
Finance income		76	129	76	129
Finance expenses	9	(88)	(53)	(76)	(37)
Loss before income tax		(14,472)	(14,847)	(12,885)	(14,124)
Income tax expense	10	-	-	-	-
Loss for the year		(14,472)	(14,847)	(12,885)	(14,124)
Other comprehensive income:					
Exchange differences on translating operations		137	(495)	(225)	(1,607)
Cash flow hedge	26	40	16	40	16
Income tax relating to other comprehensive income		-	-	-	-
Other comprehensive income/(loss) for the year		177	(479)	(185)	(1,591)
Total comprehensive loss for the year		(14,295)	(15,326)	(13,070)	(15,715)
Loss for the year attributable to the Owners of the Company		(14,472)	(14,847)	(12,885)	(14,124)
Total comprehensive loss attributable to the Owners of the Company		(14,295)	(15,326)	(13,070)	(15,715)
Basic earnings per share – cents	30	(21.68)	(26.14)		
Diluted earnings per share – cents	30	(21.68)	(26.14)		

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

Statements of Movements in Equity

for the year ended 31 December 2011

		CONSOLIDATED		PARENT COMPANY	
	Note	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Equity at beginning of year		18,268	25,731	17,696	25,548
Comprehensive loss for year		(14,295)	(15,326)	(13,070)	(15,715)
Share option compensation expensed	26	187	162	187	162
Contributions of equity	24	8,428	7,734	8,428	7,734
Costs related to issues of new equity	24	(77)	(33)	(77)	(33)
Refunds of lapsed part paid shares	24	(31)	-	(31)	-
Equity at end of year		\$12,480	\$18,268	\$13,133	\$17,696

The above Statements of Movements in Equity should be read in conjunction with the accompanying notes.

Statements of Financial Position

as at 31 December 2011

		CONSOLIDATED		PARENT COMPANY	
	Note	31 Dec 11 \$000s	31 Dec 10 \$000s	31 Dec 11 \$000s	31 Dec 10 \$000s
Current Assets					
Cash and cash equivalents	12	3,628	2,900	2,715	2,385
Trade and other receivables	13	8,104	9,447	5,526	6,387
Derivative financial instruments	14	56	16	56	16
Inventories	15	10,944	14,246	5,340	5,110
Total current assets		22,732	26,609	13,637	13,898
Non-Current Assets					
Plant and equipment	16	1,467	2,097	1,061	1,287
Intangible assets	17	2,330	2,807	2,321	2,795
Advances to subsidiaries	29	-	-	6,636	9,697
Investment in subsidiaries	18	-	-	-	37
Total non current assets		3,797	4,904	10,018	13,816
Total assets		26,529	31,513	23,655	27,714
Current Liabilities					
Trade and other payables	19	10,125	12,084	7,674	8,864
Bank finance facilities	20	1,192	589	1,189	582
Provisions	21	2,658	445	1,585	445
Finance lease liability	22	65	59	65	59
Total current liabilities		14,040	13,177	10,513	9,950
Non-Current Liabilities					
Finance lease liability	22	9	68	9	68
Total liabilities		14,049	13,245	10,522	10,018
Net assets		\$12,480	\$18,268	\$13,133	\$17,696
Equity					
Contributed equity	24	106,519	98,199	106,519	98,199
Accumulated losses	25	(92,671)	(78,551)	(91,750)	(79,217)
Other reserves	26	(1,368)	(1,380)	(1,636)	(1,286)
Total equity		\$12,480	\$18,268	\$13,133	\$17,696

For and on behalf of the Board



Director
28 February 2012



Director
28 February 2012

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

Cash Flow Statements

for the year ended 31 December 2011

	Note	CONSOLIDATED 2011 \$000s	2010 \$000s	PARENT COMPANY 2011 \$000s	2010 \$000s
Cash flows from operating activities					
Receipts from customers exclusive of GST		36,337	24,969	20,876	19,376
Receipts from Group Companies		-	-	5,543	644
Payments to suppliers and employees exclusive of GST		(44,274)	(43,913)	(29,561)	(28,403)
Payments to Group Companies		-	-	(2,262)	(1,627)
Interest paid		(88)	(53)	(76)	(37)
Interest received		76	129	76	129
Net GST received		1,431	1,462	237	224
Net cash outflow from operating activities	31	(6,518)	(17,406)	(5,167)	(9,694)
Cash flows from investing activities					
Payments for plant and equipment	16	(503)	(501)	(313)	(134)
Payments for intangible assets	17	(949)	(877)	(941)	(877)
Proceeds from sale of plant and equipment		-	-	2	-
Advances to subsidiaries		-	-	5,106	(8,746)
Investment in subsidiaries		-	-	(7,000)	-
Net cash outflow from investing activities		(1,452)	(1,378)	(3,146)	(9,757)
Cash flows from financing activities					
Cash proceeds from share issues, net of issue costs		8,320	7,700	8,320	7,700
Net proceeds/(repayments) from bank finance facilities		550	(1,997)	553	(1,192)
Net cash inflow from financing activities		8,870	5,703	8,873	6,508
Net increase/(decrease) in cash and cash equivalents					
		900	(13,081)	560	(12,943)
Cash and cash equivalents at the beginning of the financial period		2,900	16,059	2,385	15,404
Effect of exchange rate movements on cash		(172)	(78)	(230)	(76)
Cash and cash equivalents at end of year	12	\$3,628	\$2,900	\$2,715	\$2,385

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 31 December 2011

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 16-22 Omega Street, North Harbour, Auckland 0632, New Zealand.

These consolidated financial statements have been approved for issue by the Board of Directors on 28 February 2012. The entity’s owners do not have the power to amend these financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply fully with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit oriented entities. These financial statements comply with International Financial Reporting Standards (IFRS).

Entities reporting

The financial statements include separate financial statements for Wellington Drive Technologies Limited as separate legal entity and the consolidated entity consisting of the Company and its subsidiaries.

Statutory base

The Company is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Going concern convention

The Group reported a loss of \$14,472,000 (31 December 2010: \$14,847,000) and operating cash outflows of \$6,861,000 for the year ended 31 December 2011 (31 December 2010: \$17,406,000).

In August 2011 the Company announced a restructuring plan, the key features of which are summarised below:

- A reduction in the Group’s Singapore-based in-house manufacturing activities. In future, Singapore operations will focus on the management and development of contract manufacturing partners in the Asian region and elsewhere. The intended changes will result in lower operational expenditures and substantial reductions in related levels of working capital;
- A revised agreement with Ziehl-Abegg AG (“Ziehl”) resulting in a substantially changed agreement. The revised agreement provides for the transfer of manufacturing capability to Ziehl for certain motors that are currently made by the Group for Ziehl and results in the cessation of the Group’s ventilation business line; and
- Reductions in operational expenditures following the review of global operations;

A key objective of the restructuring plan is to increase funds available for investment in the Group’s Latin American businesses (particularly Mexico and Brazil) and to strengthen the Group’s European business, headquartered in Turkey.

2. Summary of significant accounting policies (continued)

The restructuring plan and growth initiatives described above are reflected in cash flow projections that demonstrate that the Group has adequate finances and liquidity for at least twelve months from the date of this Annual Report and accordingly the Directors believe it is appropriate to adopt the going concern assumption in the preparation of the financial statements.

These cash flow projections are based on a number of significant assumptions including:

- successful execution of the restructuring activities described above including reduction of in-house manufacturing, finalising production for Ziehl in April 2012 and the transfer of production capability to Ziehl;
- planned inventory and operational expenditure reductions as a result of the revised arrangements with Ziehl and resulting from other planned initiatives;
- continuity of major customers;
- achievement of forecasted sales growth and unit sales to customers;
- working capital requirements to fund the growth of the business can be satisfied from the financial resources of the Group;
- maintenance of existing contractual supplier relationships on acceptable commercial terms;
- forecast prices for significant components and other input costs are attained;
- continuity of the bank finance facility; and
- foreign exchange rates reflective of market rates prevailing at December 2011.

Whilst the Directors believe that the Group's forecast trading performance along with the restructuring plan and initiatives described above will provide the Group with adequate levels of financing and liquidity for the foreseeable future, the Directors acknowledge that this represents a material uncertainty in relation to the Group's ability to continue as a going concern.

In the event that there are material variations from the assumptions adopted in the cash flow projections, the minimum cash facilities available to the Group over the forecast period may be inadequate. Therefore, the Company may be required to seek further funding from shareholders, other investors or lenders to provide the Group with appropriate liquidity and secure the Company's long term success and its ability to continue as a going concern.

The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2011 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the

2. Summary of significant accounting policies (continued)

cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statements of Comprehensive Income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies

(c) Foreign currency translation

(i) 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 and parent financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

From 1 January 2010 the Parent has changed its functional currency from New Zealand dollars to US dollars. On the date of the change of functional currency all assets, liabilities, issued capital and other components of equity and income statement items were translated into US dollars at the exchange rate on 1 January 2010. The Board believes US Dollars is the primary economic environment that the Parent operates in from 2010. 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.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statements of Comprehensive Income.

(iii) Foreign operations

The results and balance sheets of all foreign operations that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the Statements of Financial Position;
- income and expenses for each Statements of Comprehensive Income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, duties and Goods and Services Tax.

(i) Sale of Goods and Services

Revenue from the sale of goods and disposal of other assets is recognised when the Group has passed control of the goods or other assets to the buyer. Revenue from the provision of services is recognised when services are delivered to the buyer.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. Summary of significant accounting policies (continued)

(iii) Royalties

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(iv) Government grants

Grants from the government are recognised within 'Other Income' in the Statements of Comprehensive Income at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the Statements of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

(e) Income tax

The income tax expense or revenue for the year is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(f) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 14. Movements on the hedging reserve in shareholders' equity are shown in note 24. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Statements of Comprehensive Income within other income.

2. Summary of significant accounting policies (continued)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward exchange hedging contracts is recognised in the Statements of Comprehensive Income within 'revenue'. The gain or loss relating to the ineffective portion is recognised in the Statements of Comprehensive Income within 'other income'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statements of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statements of Comprehensive Income within 'other income'.

(g) Goods and Services Tax (GST) and Value Added Tax (VAT)

The Statements of Comprehensive Income have been prepared so that all components are stated exclusive of GST and VAT. All items in the Statements of Financial Position are stated net of GST and VAT, with the exception of receivables and payables, which include GST and VAT invoiced.

(h) Leases

The Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statements of Comprehensive Income on a straight line basis over the period of the lease.

Leases in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The asset acquired under a finance lease is depreciated over the shorter of the asset's useful life and the lease term

(i) Impairment of non-financial assets

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets have a finite useful life and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank finance facilities drawn down, are shown within current liabilities in the Statements of Financial Position.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than approximately 70 days from the date of recognition.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant

2. Summary of significant accounting policies (continued)

financial difficulties of the debtor, indicating that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statements of Comprehensive Income within 'operating expenses'.

When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequently recoveries of amounts previously written off are credited against Operating expenses in the Statements of Comprehensive Income.

(l) Inventories

Raw materials, work in progress and finished goods

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of first in first out. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Investments and other financial assets

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the Statements of Financial Position. Loans and receivables are carried at amortised cost using the effective interest method.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

(n) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project and an appropriate portion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statements of Comprehensive Income during the financial year in which they are incurred.

Depreciation on plant and equipment is calculated using the straight line method to allocate their cost net of their residual values, over their estimated useful lives, as follows:

	Useful Life
Plant and equipment	3 – 15 years
Office equipment, furniture and fittings	3 – 15 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statements of Comprehensive Income.

2. Summary of significant accounting policies (continued)

(o) Intangible assets

(i) Research, development and patent costs

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the Statements of Comprehensive Income as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the Statements of Comprehensive Income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, up to a maximum of 5 years.

Capitalised patent costs are amortised on a straight line basis over the period of expected benefit no longer than the life of the patent, up to a maximum of 20 years.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

(p) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent liabilities for goods and services provided to the Group prior to balance sheet date. The amounts are unsecured and are usually paid within 45 days of recognition.

(q) Investments in subsidiaries

Investments in subsidiaries are stated at cost less impairment.

(r) Provisions

Provisions for legal claims, warranties and restructuring costs are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(s) Borrowings

Borrowings and bank finance facilities are initially recognised at fair value, net of transaction costs incurred.

Borrowings including bank finance facilities are subsequently measured at amortised cost. Any difference between the proceeds (plus transaction costs) and the redemption amount is recognised in the Statements of Comprehensive Income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Borrowing costs

Borrowing costs are expensed when incurred unless they are directly attributable to the acquisition or construction of an asset, in which case they are capitalised.

2. Summary of significant accounting policies (continued)

(u) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Share based payments

Equity settled, share based compensation is provided to employees via the Wellington Partly Paid Share Scheme and Wellington Employees Share Option Plan. The fair value of the employee services received in exchange for the grant of part paid shares or options are recognised as an expense over the vesting period. Fair value is assessed at the date that the partly paid shares are granted using a binomial option pricing model that takes into account the grant or exercise price, the two or three year term of the partly paid shares or options, the exercise criteria, the likelihood of staff turnover, the non-tradable nature of the partly paid shares or options, the share price at grant date and the volatility of the returns on the underlying share and risk-free interest rate for the term.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the partly paid share proceeds are received or options are exercised.

(iii) Bonus plans

The Group recognises a liability and an expense for bonuses and creates a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance sheet date.

(x) Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer supported by the Senior Management Team.

(y) Standards, amendments and interpretations affecting the financial statements

(i) New and amended standards adopted by the Group

NZ IAS 24 "Related Party Disclosures" (mandatory for annual periods beginning on or after 1 January 2011). The revised NZ IAS 24 mainly amends the definition of a related party. The Group and Company has applies NZ IAS 24 from 1 January 2011. It has not had a material impact on the Group or Company's financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2011 or later periods but which the Group has not early adopted:

- *NZ IFRS 9 "Financial instruments: classification and measurement" (mandatory for annual periods beginning on or after 1 January 2013).* There are a number of changes under this standard in relation to the measurement and classification of financial instruments. The Group is reviewing the standard for its implications on the Group and intends to adopt NZ IFRS 9 from 1 July 2013.

- *NZ IFRS 10 “Consolidated Financial Statements” (mandatory for annual periods beginning on or after 1 January 2013).* NZ IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard is not expected to have a significant impact on the Company or Group.
- *NZ IFRS 13 “Fair Value Measurement” (mandatory for annual periods beginning on or after 1 January 2013).* NZ IFRS 13 defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity’s own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The Company is evaluating the impact that this new standard may have on the Group.
- *Harmonisation Amendments FRS44 New Zealand Specific Disclosure.* The Harmonisation Amendments set out amendments to NZ IFRSs as a result of proposals that were contained in Exposure Draft 121. It should be read in conjunction with “FRS-44” New Zealand Additional Disclosures which sets out the New Zealand “All Entity” disclosure requirements that are in addition to requirements in IFRSs which have been relocated to the separate disclosure standard. The effective date of the amendments is reporting periods beginning on or after 1 July 2011. This new standard is not expected to have a significant impact on the Company or Group.

3. FINANCIAL RISK MANAGEMENT

Due to the broad range of the Group’s activities, there is exposure to a variety of financial risks:

- Market risk (including currency risk and interest rate risk);
- Credit risk; and
- Liquidity risk

The Group’s risk management programme focuses on minimising the potential adverse effects of these risks.

The Group’s business is primarily denominated in foreign currencies. The Group holds New Zealand dollars and other currencies to settle transactions in the normal course of business.

(a) Market risk

Foreign Currency Risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures. Presently the majority of the Group’s revenue is derived from USD contracts. The majority of the Group’s product, manufacturing and logistics costs are settled in US dollars. This provides a strong natural hedge position between revenues and costs. Part of revenues are priced in Euro which the Group converts into USD to settle payables. USD funds are also converted to SGD and NZD to meet operational costs. Exposure to SGD based costs is expected to decline as a result of the announced restructuring plans. Though the NZ dollar remains the main currency for corporate funding, engineering costs and Group reporting, it will continue to diminish as a proportion of total Group costs as product sales outstrip growth in the engineering cost base. The Group actively monitors its foreign exchange exposures and may use forward exchange contracts to reduce the currency risks associated with these purchases. Where possible, the Group has price adjustment clauses in its major contracts to adjust for significant currency movements.

The below tables show the impact on pre tax loss for the year, if the major currencies that the Company trades in weaken/strengthen by 10% to the US Dollar, with other variables held constant. The impact would mainly result in foreign exchange gains or losses on the conversion of cash, receivables and payables. The same movement on equity would be expected.

10% was chosen as a reasonable sensitivity given the historically volatile markets for foreign exchange.

3. Financial Risk Management (continued)

31 December 2011

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
NZD cash	182	18	(18)	182	18	(18)
NZD accounts receivable	5	1	(1)	5	1	(1)
NZD accounts payable	(574)	(57)	57	(574)	(57)	57
Total		<u>(\$38)</u>	<u>\$38</u>		<u>(\$38)</u>	<u>\$38</u>

31 December 2010

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
NZD cash	1,248	125	(125)	1,248	125	(125)
NZD accounts receivable	21	2	(2)	21	2	(2)
NZD accounts payable	(498)	(50)	50	(496)	(50)	50
Total		<u>\$77</u>	<u>(\$77)</u>		<u>\$77</u>	<u>(\$77)</u>

31 December 2011

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
SGD cash	183	18	(18)	15	2	(2)
SGD accounts receivable	102	10	(10)	-	-	-
SGD accounts payable	(390)	(39)	39	-	-	-
Total		<u>(\$11)</u>	<u>\$11</u>		<u>\$2</u>	<u>(\$2)</u>

31 December 2010

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
SGD cash	234	23	(23)	1	-	-
SGD accounts receivable	-	-	-	-	-	-
SGD accounts payable	(406)	(41)	41	-	-	-
Total		<u>(\$18)</u>	<u>\$18</u>		<u>\$ -</u>	<u>\$ -</u>

31 December 2011

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
EUR cash	221	22	(22)	214	21	(21)
EUR accounts receivable	601	60	(60)	454	45	(45)
EUR accounts payable	(195)	(20)	20	1	-	-
EUR bank finance liability	(289)	(29)	29	(289)	(29)	29
Total		<u>\$33</u>	<u>(\$33)</u>		<u>\$37</u>	<u>(\$37)</u>

3. Financial Risk Management (continued)

31 December 2010

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
EUR cash	6	1	(1)	4	-	-
EUR accounts receivable	971	97	(97)	987	99	(99)
EUR accounts payable	(25)	(3)	3	2	-	-
EUR bank finance liability	(185)	(19)	19	(185)	(19)	19
Total		<u>\$76</u>	<u>(\$76)</u>		<u>\$80</u>	<u>(\$80)</u>

31 December 2011

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
YTL cash	569	57	(57)	-	-	-
YTL accounts payable	(24)	(2)	2	-	-	-
Total		<u>\$55</u>	<u>(\$55)</u>		<u>\$ -</u>	<u>\$ -</u>

31 December 2010

NZ\$000s	Carry Amount	CONSOLIDATED		Carry Amount	PARENT	
		NZD +10% Profit/Equity	NZD -10% Profit/Equity		NZD +10% Profit/Equity	NZD -10% Profit/Equity
YTL cash	92	9	(9)	-	-	-
YTL accounts payable	(56)	(6)	6	-	-	-
Total		<u>\$3</u>	<u>(\$3)</u>		<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The Group currently has no central overdraft or debt facility. The Parent has a bank finance facility as described in note 20. The Turkish subsidiary previously used a secured overdraft facility with the local bank Yapi Kredi to fund working capital requirements which was repaid in the 2010 financial year. This was secured against cash deposits held by the Bank of New Zealand, with the Bank of New Zealand offering a letter of credit to Yapi Kredi as security. Following the repayment in the 2010 financial year the letter of credit was cancelled and the guarantee was released.

The Group had cash deposits in various currencies at balance sheet date as follows:

CONSOLIDATED \$000s	31 December 2011		31 December 2010	
	Local Currency Amounts	NZD Equivalent	Local Currency Amounts	NZD Equivalent
NZD	182	182	1,248	1,248
EUR	132	221	3	6
USD	1,906	2,472	1,015	1,320
SGD	183	183	233	234
GBP	1	1	-	-
YTL	833	569	111	92
Total		<u>\$3,628</u>		<u>\$2,900</u>

3. Financial Risk Management (continued)

The Parent had cash deposits in various currencies at balance sheet date as follows:

PARENT \$000s	31 December 2011		31 December 2010	
	Local Currency Amounts	NZD Equivalent	Local Currency Amounts	NZD Equivalent
NZD	182	182	1,250	1,250
EUR	127	214	3	4
USD	1,776	2,303	870	1,129
SGD	15	15	1	1
GBP	1	1	-	-
Total		<u>\$2,715</u>		<u>\$2,384</u>

The impact of a 1% increase/decrease in interest rates over a one year period on the closing cash balance would result in an increase/decrease in pre-tax profitability and equity of \$35,000 (December 2010 - \$43,000). The impact of a 1% increase/decrease in interest rates on the bank finance facility has a immaterial impact on the Parent and Group.

1% was chosen as a reasonable sensitivity given changeable interest rate markets.

(b) Credit Risk

As the majority of business is still executed through the Parent, credit risk is managed on a Group basis. This will develop over time as the international operations establish their own customer base and, in some cases, take over existing customers from the Parent. The Group generally trades with customers and banking counterparties who are well established. While there are individually significant customers the Company and Group utilise an insured trade credit facility for several of its major customers in order to provide better security and to be able to factor their receivables. The Group is also exposed to credit risk relating to component suppliers for which the Group has sold input components for the assembly of its products. Receivables balances are managed by and reported regularly to senior management according to the Company's credit management policies and procedures. The amount outstanding at balance sheet date represents the maximum exposure to credit risk.

The Group enters into foreign exchange derivatives within specified policy limits and only with counter-parties approved by directors.

(c) Liquidity Risk

The Company maintains regular forecasts of liquidity based on expected cash flows. The table below analyses the Company's financial liabilities into relevant groups based on the remaining period at the reporting date to the end of the contractual date. The amounts disclosed are the contractual undiscounted cash flows.

Consolidated \$000s	December 2011			December 2010		
	Less than 6 months	7 to 12 months	More than 12 months	Less than 6 months	7 to 12 months	More than 12 months
Financial liabilities						
Trade and other payables	10,125	-	-	12,084	-	-
Bank finance facilities	1,192	-	-	589	-	-
Finance lease liability	33	33	9	29	29	69
	<u>\$11,350</u>	<u>\$33</u>	<u>\$9</u>	<u>\$12,702</u>	<u>\$29</u>	<u>\$69</u>

3. Financial Risk Management (continued)

(d) Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital (refer to note 2(a)).

The Company currently monitors capital on the basis of cash requirements and, in order to maintain or adjust the capital structure, generally issues new shares to investors through rights issues or institutional placements.

The Group and the Company have not been subject to any externally imposed capital requirements during the period.

(e) Fair Values

The carrying value of all balance sheet financial instruments approximate 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 reprice 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.

4. FINANCIAL INSTRUMENTS BY CATEGORY

	CONSOLIDATED		PARENT COMPANY	
	31 Dec 11	31 Dec 10	31 Dec 11	31 Dec 10
Assets per Statements of Financial Position	\$000s	\$000s	\$000s	\$000s
Loans and Receivables				
Trade and other receivables	8,104	9,447	5,526	6,387
Cash and cash equivalents	3,628	2,900	2,715	2,385
Advances to subsidiaries	-	-	6,636	9,697
Derivatives used for hedging				
Derivative financial instruments	56	16	56	16
	\$11,788	\$12,363	\$14,933	\$18,485
Liabilities per Statements of Financial Position				
Amortised cost				
Trade and other payables	10,125	12,084	7,674	8,864
Bank finance facility	1,192	589	1,189	582
Finance lease liability	74	127	74	127
	\$11,391	\$12,800	\$8,937	\$9,573

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates, assumptions and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Going Concern Assumption*

Refer note 2(a) in relation to the adoption of the going concern assumption.

(ii) *Inventory Provisions- \$2,760,000 (2010 - \$1,030,000)*

Inventories are stated at the lower of cost and net realisable value. Management are required to make judgements about expected selling prices (refer to note 15).

5. Critical accounting estimates, assumptions and judgements (continued)

(iii) *Warranty Provision - \$1,148,000 (2010 - \$445,000)*

Provisions for warranties are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The terms of the warranty provide that the Company will repair or replace items that fail to perform satisfactorily. A provision has been recognised based on historical data and average levels of repairs and warranty claims experienced by the Group with respect to similar products. It is expected that the provision will be utilised within one year.

(iv) *Development Costs- \$1,428,000 (2010 - \$1,899,000)*

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, up to a maximum of 5 years. Capitalised development costs are assessed for impairment annually (refer 2(i)).

6. SEGMENT INFORMATION

(a) Reportable segments

At 31 December 2011, the Group is organised on a global basis into one operating segment: marketing, selling, manufacturing and developing electric motors and associated electronics and software. The segment result is reflected in the financial statements.

(b) Geographical segments

The Company's operates in four 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 Company's revenue is generated mainly from the supply or manufacture of electric motors by the Company.

Revenue by Geographic Areas	CONSOLIDATED	
	2011 \$000s	2010 \$000s
New Zealand	42	55
Americas	16,407	12,828
Asia/Pacific –other	2,356	4,913
Europe	16,180	10,219
Total	\$34,985	\$28,015

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

Total Non Current Assets	CONSOLIDATED	
	31 Dec 2011 \$000s	31 Dec 2010 \$000s
New Zealand	3,383	4,084
America	54	85
Asia/Pacific –other	341	710
Europe	19	25
Total	\$3,797	\$4,904

Total assets are allocated based on where the owners of the assets are located

Major Customers

Two major customers (each of representing 10% or more of revenues), each account for revenues of \$8,766,000, and \$3,791,000 of total revenues (2010 : three customers each with revenues of \$6,714,000, \$4,014,000 and \$3,532,000).

7. REVENUE

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
Product revenue	34,720	27,844	33,187	28,815
Services revenue	307	140	307	140
Royalties & licensing	(42)	31	(42)	31
	\$34,985	\$28,015	\$33,452	\$28,986

8. OTHER INCOME

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
Net foreign exchange gains	-	-	45	625
Government grants	-	52	-	52
Other income	155	8	149	2
	\$155	\$60	\$194	\$679

The Group recognised as income in 2010 government grants income from the NZ Government of \$52,000. The NZ Government Grants are in relation to the Enterprise Development Grant Market Development Scheme operated by NZ Trade and Enterprise and Technology for Business Growth and Technology Fellowship schemes operated by the Foundation for Research Science & Technology. These schemes reimburse the Group for up to 50% of eligible expenditure.

9. EXPENSES

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
Loss before income tax includes the following specific expenses:				
Depreciation (note 16)				
Plant and equipment	665	764	390	493
Office equipment, furniture & fittings	236	281	128	165
	\$901	\$1,045	\$518	\$658
Employee benefits				
Wages and salaries	6,078	6,347	3,617	3,771
Sick leave	83	154	83	154
Holiday pay	275	339	260	338
Employee share options expense	187	162	187	162
Other short term employee related costs	574	609	248	221
	\$7,197	\$7,611	\$4,395	\$4,646
Auditors' remuneration				
Audit services: Group –				
PricewaterhouseCoopers	100	85	100	85
Audit services: Subsidiaries –				
PricewaterhouseCoopers	16	-	-	-
Audit services – Other audit firms	-	10	-	-
Audit related services –				
PricewaterhouseCoopers	21	20	21	20
Tax compliance & advice –				
PricewaterhouseCoopers	6	13	6	13
	\$143	\$128	\$127	\$118

9. Expenses (continued)

	CONSOLIDATED		PARENT COMPANY	
	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Restructuring costs				
Onerous leases	233	-	94	-
Onerous supply contracts	837	-	-	-
Redundancy costs	680	-	383	-
	\$1,750	\$ -	\$477	\$ -
Amortisation of intangible assets (note 17)	647	698	638	684
Impairment of property plant & equipment	200	-	-	-
Impairment of intangibles	752	795	752	795
Finance costs				
Interest expense	88	53	76	37
Doubtful debts expense/(recovered)	91	(59)	44	(34)
Rental expense relating to operating leases	1,299	1,292	570	571
Net foreign exchange losses	551	750	-	-
Development costs expensed	1,128	790	348	672
Inventory write downs/(recovery)	1,869	598	290	(20)
(Provision recoveries)/provisions made in respect of subsidiary advances	-	-	(2,063)	4,691
Provisions made in respect of subsidiary investments	-	-	7,195	940

10. INCOME TAX EXPENSE

(a) Income tax expense

No taxation is payable (Dec 2010 - \$nil), as the Company and Group have tax losses available to carry forward and offset against current year taxable income.

(b) Losses for tax purposes

	CONSOLIDATED		PARENT COMPANY	
	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Reported loss for period before tax	(14,472)	(14,847)	(12,885)	(14,124)
Less non deductible expenses	271	498	5,403	6,118
Less unrecognised timing differences	3,577	1,270	1,029	647
Net loss for tax purposes	(10,624)	(13,079)	(6,453)	(7,359)
Losses carried forward from prior years	(69,954)	(58,533)	(57,929)	(50,570)
Overprovision in prior year	-	-	-	-
Expired losses	1,785	368	-	-
Exchange adjustments	257	1,290	-	-
Losses available to carry forward to future years	(\$78,536)	(\$69,954)	(\$64,382)	(\$57,929)

Of the total consolidated losses available to carry forward to future years, \$4,511,000 (2010 - \$6,179,000) arises in the U.S.A. and are subject to their continuity requirements. U.S.A. Federal tax losses expire after 15 to 20 years, depending on when those losses were incurred. During the 2011 year U.S.A. Federal tax losses of US\$1,378,000 expired (2010 - US\$283,000).

10. Income Tax (continued)

(c) Unrecognised deferred tax balances

The Company and Group have not recognised income tax losses and temporary differences as a future income tax benefit due to the uncertainty of their recoverability in the immediate future. The losses available to be carried forward are subject to the shareholder continuity requirements of the New Zealand Income Tax Act 1994 and the countries in which the losses have arisen. Further details can be found in Note 23.

11. IMPUTATION CREDITS

The Parent and the Group have no imputation credits available (2010 – nil) and no movements occurred in the Imputation Credit Account (2010 – nil).

12. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT COMPANY	
	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Cash on hand and at bank	566	420	283	36
NZD call deposits	611	217	43	104
Offshore bank funds	2,374	1,153	2,312	1,135
NZD short term bank deposits 3 to 12 months	77	1,110	77	1,110
Cash and cash equivalents in cash the Cash Flow Statement	\$3,628	\$2,900	\$2,715	\$2,385

All short term bank deposits can be accessed within 3 months if necessary.

13. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT COMPANY	
	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Net trade receivables				
Trade receivables	6,758	8,072	4,919	6,087
Provision for doubtful debts	(172)	(401)	(125)	(390)
	6,586	7,671	4,794	5,697
Receivable from subsidiaries (note 29)	-	-	342	-
Prepayments	401	436	325	314
Other receivables	169	527	16	313
VAT/GST refunds due	948	813	49	63
	\$8,104	\$9,447	\$5,526	\$6,387

The fair values of trade receivables approximate their carrying amounts. The fair values of loans to related parties approximate their face values because the loans are repayable on demand and are stated at net realisable value. At balance sheet date, trade and other receivables of \$882,000 were past due but not considered impaired (2010 - \$2,252,000). The aging of these receivables is up to 14 months made up of: \$823,000 less than 6 months; \$41,000 7 to 12 months and \$18,000 greater than 12 months. In 2010 the aging was 2 to 26 months made up of: \$2,044,000 less than 6 months; \$121,000 7 to 12 months and \$86,000 greater than 12 months.

Individual receivables are assessed as impaired where customers have defaulted on payment terms and management has assessed the likelihood of recovery as remote. A full provision has been made against those individually impaired assets. For receivables that are neither past due nor impaired, management does not foresee any likelihood of default as the receivables are due from long-standing customers.

13. Trade and Other Receivables(continued)

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
Provision for doubtful debts beginning of year	401	460	390	424
Increase/(decrease) in provision	91	(59)	44	(34)
Bad debts written off	(278)	-	(271)	-
Exchange adjustment	(42)	-	(38)	-
Provision for doubtful debts end of year	\$172	\$401	\$125	\$390

Movements in the provision for doubtful debts is recognised within 'Other expenses' in the Statements of Comprehensive Income.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED & PARENT		Notional Contract Value	
	Carrying Amount			
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
Forward foreign exchange contracts				
Buy USD/Sell EUR	\$56	\$16	\$714	\$713

Part of the Parent company revenues are priced in EUR. The majority of overseas suppliers price their materials and components in USD. The Parent may hedge highly probable forecast sales in EUR against the USD purchases that are expected to occur at various dates over the next 6 months. These contracts are timed to mature when receipts from revenues are scheduled to be received. The forward currency contracts are considered to be highly effective as they are matched against forecast revenues with any gain/loss on contracts attributable to the hedged risk taken directly to equity. When revenues are collected the amount recognised in equity is recycled to the Statements of Comprehensive Income in the following year (refer note 26).

15. INVENTORIES

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
Finished goods – at cost	6,772	7,336	3,897	4,162
Work in progress – at cost	2,844	3,745	1,585	768
Raw materials – at cost	4,088	4,195	330	324
Less inventory provisions	(2,760)	(1,030)	(472)	(144)
Total inventories	\$10,944	\$14,246	\$5,340	\$5,110

Certain inventories are subject to retention of title clauses.

The majority of the increase in inventory provisions in 2011 relates to planned restructuring costs (\$797,000), component obsolescence and superseded product run out (\$404,000) and components relating to products which are no longer viable (\$604,000).

16. PLANT & EQUIPMENT

	CONSOLIDATED			PARENT COMPANY		
	Plant & Equipment	Office equipment, furniture & fittings	Total	Plant & equipment	Office equipment, furniture & fittings	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
At 31 December 2009						
Cost	4,645	2,073	6,718	3,621	1,386	5,007
Accumulated depreciation	(2,762)	(1,103)	(3,865)	(2,281)	(846)	(3,127)
Exchange adjustment	(82)	(74)	(156)	-	-	-
Net book amount	\$1,801	\$896	\$2,697	\$1,340	\$540	\$1,880
Year ended 31 December 2010						
Opening net book amount	1,801	896	2,697	1,340	540	1,880
Additions	335	166	501	72	62	134
Depreciation	(764)	(281)	(1,045)	(493)	(165)	(658)
Disposals	-	-	-	-	-	-
Exchange adjustment	(34)	(22)	(56)	(47)	(22)	(69)
Closing net book amount	\$1,338	\$759	\$2,097	\$872	\$415	\$1,287
At 31 December 2010						
Cost	4,980	2,239	7,219	3,693	1,448	5,141
Accumulated depreciation	(3,526)	(1,384)	(4,910)	(2,774)	(1,011)	(3,785)
Exchange adjustment	(116)	(96)	(212)	(47)	(22)	(69)
Net book amount	\$1,338	\$759	\$2,097	\$872	\$415	\$1,287
Year ended 31 December 2011						
Opening net book amount	1,338	759	2,097	872	415	1,287
Additions	394	109	503	242	71	313
Depreciation	(665)	(236)	(901)	(390)	(128)	(518)
Impairments	(100)	(100)	(200)	-	-	-
Disposals	(3)	-	(3)	(2)	-	(2)
Exchange adjustment	(17)	(12)	(29)	(14)	(5)	(19)
Closing net book amount	\$947	\$520	\$1,467	\$708	\$353	\$1,061
At 31 December 2011						
Cost	5,371	2,348	7,719	3,674	1,425	5,099
Accumulated depreciation and impairments	(4,291)	(1,720)	(6,011)	(2,966)	(1,072)	(4,038)
Exchange adjustment	(133)	(108)	(241)	-	-	-
Net book amount	\$947	\$520	\$1,467	\$708	\$353	\$1,061

17. INTANGIBLE ASSETS

CONSOLIDATED	Development costs \$000s	Patents \$000s	Software \$000s	Other intangibles \$000s	Total \$000s
At 31 December 2009					
Cost	5,268	1,293	292	162	7,015
Accumulated amortisation	(2,596)	(570)	(142)	(48)	(3,356)
Exchange adjustment	-	-	-	(11)	(11)
Net book amount	\$2,672	\$723	\$150	\$103	\$3,648
Year ended 31 December 2010					
Opening net book amount	2,672	723	150	103	3,648
Additions	692	147	38	-	877
Amortisation	(492)	(112)	(80)	(14)	(698)
Impairments	(795)	-	-	-	(795)
Exchange adjustment	(178)	(38)	(4)	(5)	(225)
Closing net book amount	\$1,899	\$720	\$104	\$84	\$2,807
At 31 December 2010					
Cost	5,165	1,440	330	162	7,097
Accumulated amortisation	(3,088)	(682)	(222)	(62)	(4,054)
Exchange adjustment	(178)	(38)	(4)	(16)	(236)
Net book amount	\$1,899	\$720	\$104	\$84	\$2,807
Year ended 31 December 2011					
Opening net book amount	1,899	720	104	84	2,807
Additions	595	297	57	-	949
Amortisation	(418)	(136)	(85)	(8)	(647)
Impairments	(629)	(123)	-	-	(752)
Exchange adjustment	(19)	(4)	(2)	(2)	(27)
Closing net book amount	\$1,428	\$754	\$74	\$74	\$2,330
At 31 December 2011					
Cost	5,131	1,614	387	162	7,294
Accumulated amortisation	(3,506)	(818)	(307)	(70)	(4,701)
Exchange adjustment	(197)	(42)	(6)	(18)	(263)
Net book amount	\$1,428	\$754	\$74	\$74	\$2,330
PARENT COMPANY					
At 31 December 2009					
Cost	5,268	1,293	292	77	6,930
Accumulated amortisation	(2,596)	(570)	(142)	-	(3,308)
Net book amount	\$2,672	\$723	\$150	\$77	\$3,622
Year ended 31 December 2010					
Opening net book amount	2,672	723	150	77	3,622
Additions	692	147	38	-	877
Amortisation	(492)	(112)	(80)	-	(684)
Impairments	(795)	-	-	-	(795)
Exchange adjustment	(178)	(38)	(4)	(5)	(225)
Closing net book amount	\$1,899	\$720	\$104	\$72	\$2,795

17. Intangible Assets (continued)

PARENT COMPANY	Development costs \$000s	Patents \$000s	Software \$000s	Other intangibles \$000s	Total \$000s
At 31 December 2010					
Cost	5,165	1,440	330	77	7,012
Accumulated amortisation	(3,088)	(682)	(222)	-	(3,992)
Exchange adjustment	(178)	(38)	(4)	(5)	(225)
Net book amount	\$1,899	\$720	\$104	\$72	\$2,795
Year ended 31 December 2011					
Opening net book amount	1,899	720	104	72	2,795
Additions	595	297	49	-	941
Amortisation	(418)	(136)	(84)	-	(638)
Impairments	(629)	(123)	-	-	(752)
Exchange adjustment	(19)	(4)	(2)	-	(25)
Closing net book amount	\$1,428	\$754	\$67	\$72	\$2,321
At 31 December 2011					
Cost	5,131	1,614	379	77	7,201
Accumulated amortisation	(3,506)	(818)	(306)	-	(4,630)
Exchange adjustment	(197)	(42)	(6)	(5)	(250)
Net book amount	\$1,428	\$754	\$67	\$72	\$2,321

The remaining amortisation period of these intangibles varies between 9 months and 19 years. An impairment assessment of intangible assets is performed annually based on estimated future cash flows. Impairment losses of \$1,004,000 were recognised in the year ended 31 December 2011 (2010 – \$795,000). These relate to development and patent costs where sales revenue is not currently expected to eventuate as a result of the planned restructuring of operations and the discontinuation of products.

18. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2b.

	Country of Incorporation	Class of Shares	31 Dec 11	31 Dec 10
AirMoVent Limited	New Zealand	Ordinary	100%	100%
Wellington Drive Technologies US, Inc	USA	Ordinary	100%	100%
Wellington Motor Teknolojileri San Tic Ltd Sti	Turkey	Ordinary	99.4%	99.4%
Wellington Italia Srl	Italy	Ordinary	100%	100%
Wellington Drive Technologies Pte Ltd	Singapore	Ordinary	100%	100%
Wellington Manufacturing Group Singapore Pte Ltd	Singapore	Ordinary	100%	100%

All subsidiaries have a common balance date of 31 December.

19. TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT COMPANY	
	31 Dec 11	31 Dec 10	31 Dec 11	31 Dec 10
	\$000s	\$000s	\$000s	\$000s
Trade payables	9,196	10,942	6,980	7,206
Intercompany payables– refer note 29(d)	-	-	123	882
Related party payables – refer note 29(d)	212	290	195	272
Accrued expenses	244	357	82	130
Employee expenses				
Wages, salaries & PAYE	175	169	31	87
Holiday pay accrued	200	308	200	270
Bonuses	98	18	63	17
	\$10,125	\$12,084	\$7,674	\$8,864

20. BANK FINANCE FACILITIES

	CONSOLIDATED		PARENT COMPANY	
	31 Dec 11	31 Dec 10	31 Dec 11	31 Dec 10
	\$000s	\$000s	\$000s	\$000s
Bank finance facilities (secured)	\$1,192	\$589	\$1,189	\$582

The advances are secured by way of a debenture security over the Company's assets. Interest is payable at EURO/USD bank rates plus 2%. Advances are less than three months in nature and settled upon receipt of customer payments.

The Parent had provided a guarantee to Yapi Kredi Bank, Turkey. Yapi Kredi Bank provided a credit line of up to US\$1,000,000 to Wellington Motor Teknolojileri San Tic Ltd Sti. This guarantee was released in 2010.

21. PROVISIONS

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
Restructuring provisions	1,510	-	437	-
Warranty provisions	1,148	445	1,148	445
	\$2,658	\$445	\$1,585	\$445
(a) Restructuring provisions				
Redundancy provisions recognised				
Employee termination benefits payable	221	-	-	-
Related party termination benefits payable – refer note 29(d)	328	-	328	-
Onerous lease costs recognised	233	-	109	-
Onerous supply commitments recognised	728	-	-	-
	\$1,510	\$ -	\$437	\$ -

In August 2011, the Company announced a plan to restructure its operations. Further restructuring initiatives have resulted from the review of the business undertaken since the appointment of the new CEO. As a result additional provisions have been made to recognise the costs expected to be incurred as a result of the restructuring including redundancies, onerous lease costs and onerous supply contracts. The provisions are expected to be utilised within one year of balance date.

21. Provisions (continued)

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
(b) Warranty provisions				
Carrying amount at start of year	445	333	445	333
Additional provisions recognised	1,498	459	1,485	446
Amounts used	(149)	(168)	(136)	(5)
Unused amounts reversed	(688)	(147)	(688)	(297)
Exchange adjustment	42	(32)	42	(32)
Carrying amount at end of year	\$1,148	\$445	\$1,148	\$445

The Group sells electric motors with warranty periods of up to three years. The terms of the warranty provide that the Group will repair or replace items that fail to perform satisfactorily. A provision has been 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.

Of the additional provisions recognised this year \$545,000 relates to planned restructuring costs.

22. FINANCE LEASE LIABILITIES

	CONSOLIDATED		PARENT COMPANY	
	31 Dec 11	31 Dec 10	31 Dec 11	31 Dec 10
	\$000s	\$000s	\$000s	\$000s
Commitments in relation to finance leases are payable as follows:				
Within one year	68	69	68	69
Later than one year but not later than five years	10	72	10	72
Future finance charges	(4)	(14)	(4)	(14)
Recognised as a liability	\$74	\$127	\$74	\$127
Disclosed as:				
Current portion	65	59	65	59
Non-current portion	9	68	9	68
Recognised as a liability	\$74	\$127	\$74	\$127

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The net book value of leased assets at 31 December 2011 is \$2,000 (2010 - \$80,000).

23. DEFERRED TAX

	CONSOLIDATED		PARENT COMPANY	
	31 Dec 11	31 Dec 10	31 Dec 11	31 Dec 10
	\$000s	\$000s	\$000s	\$000s
Unrecognised deferred tax assets				
Doubtful debts	48	120	35	117
Inventory provisions	833	309	138	43
Employee benefits	81	128	81	117
Intangibles	438	69	438	69
Restructuring provisions	433	-	122	-
Tax losses to carry forward	21,990	19,587	18,027	16,220
	23,823	20,213	18,841	16,566
Unrecognised deferred tax liabilities				
Fixed assets	(137)	(26)	(81)	(26)
Unrecognised net deferred tax asset	\$23,686	\$20,187	\$18,760	\$16,540

23. Deferred Tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and they relate to the same tax authority.

New Zealand corporate tax rate of 28% has been used to determine the above deferred tax balances.

The Company and Group recognise possible unused tax losses and temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary tax differences and losses.

24. SHARE CAPITAL

CONSOLIDATED & PARENT	31 Dec 11 Shares	31 Dec 10 Shares	31 Dec 11 \$000s	31 Dec 10 \$000s
Ordinary shares – fully paid	67,366,450	673,663,985	106,456	98,113
Ordinary shares – partly paid	2,195,641	17,250,000	63	86
US employee share options	750,000	750,000	-	-
Total ordinary shares and options on issue	70,312,091	691,663,985	\$106,519	\$98,199

(a) Ordinary shares – fully paid

Opening balance of ordinary shares on issue	673,663,985	564,645,995	98,113	90,473
Issues of ordinary shares during the year:				
• September 2010 Share Purchase Plan and placements @ 7.038 cents for cash	-	109,017,990	-	7,673
• September 2010 share issue costs	-	-	-	(33)
• February 2011 rights issue at 1.25 cents for cash	673,663,985	-	8,420	-
• February 2011 share issue costs	-	-	(77)	-
June 2011 20 to 1 share consolidation	(1,279,961,520)	-	-	-
Ordinary fully paid shares on issue at year end	67,366,450	673,663,985	\$106,456	\$98,113

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 – partly paid

Partly paid shares outstanding at start of year	17,250,000	4,950,000	86	25
June 2011 20 to 1 share consolidation	(16,387,500)	-	-	-
Issues of partly paid shares during the year:				
• August 2010 issue at \$1.63 ¹ paid to 0.5 cents	-	12,300,000	-	61
• July 2011 issue at 32.74 cents paid to 0.5 cents	125,000	-	1	-
• July 2011 issue to adjust for impact of February 2011 rights issue of ordinary shares on part paid shares	177,078	-	-	-
• December 2011 issue at 25.56 cents paid to 0.5 cents	1,347,329	-	7	-
Lapsed	(316,266)	-	(31)	-
Surrendered	-	-	-	-
Ordinary part paid shares on issue at year end	2,195,641	17,250,000	\$63	\$86

1. Issue price adjusted for impact 20 for 1 share consolidation in June 2011.

24. Share Capital (continued)

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 December 2011 (numbers)	Outstanding at December 2010 (numbers)
15 Sep 2008	15 Sep 2011	15 Sep 2012	^{1.} 599.2	^{1.} 460.9	^{1.} 460.4	-	4,950,000
10 Aug 2010	10 Aug 2013	10 Aug 2015	^{1.} 163.35	^{1.} 163.35	^{1.} 163.35	723,312	12,300,000
21 Jul 2011	21 Jul 2014	21 Jul 2016	32.74	32.74	32.24	125,000	-
6 Dec 2011	6 Dec 2013	6 Dec 2016	25.56	25.56	25.06	1,347,329	-

A Partly Paid Share Scheme was established in June 2008, to enable certain employees to acquire shares in the Company. Under the Scheme the issue price is the weighted average of the market price over the 10 trading days prior to the issue date, generally plus 30%, where the earliest exercise date is 3 years after issue. 0.5 cents per part-paid share is required to be paid on issue. After the earliest date to exercise (generally 3 years after issue), provided the market price for the Company's shares is, at that date, equal to or greater than the hurdle price stated above (and on or before the 5th anniversary of the issue date), employees can settle the unpaid balance of their part-paid shares and transfer the shares to their name or the name of their nominated trustee.

Under the initial Scheme rules the issue price was the weighted average of the market price 10 trading days prior to the issue date, whilst the hurdle price was the market price at the date of issue plus 30%. These rules applied to (the now expired) first issue of partly paid shares in September 2008 only.

Wellington Drive Technologies Share Scheme Trustee Limited (WSST) acts as trustee holding the part-paid shares on behalf of employees. These partly paid shares are not quoted on the NZX and are not tradable.

Mr Greg Allen, the Company's Chief Executive, has been issued 1,347,329 part paid shares in December 2011 which have a two year vesting period. Dr Ross Green, the Company's former Chief Executive, has 135,065 part paid shares issued from August 2010 outstanding.

Fair value is assessed at the date that the partly paid shares or share options are granted using a binomial option pricing model that takes into account the exercise price, the three year term of the partly paid shares or options, the exercise criteria, the likelihood of staff turnover, the non-tradable nature of the partly paid share or option, the share price at the issue or grant date, the volatility of the returns on the underlying share and the risk-free interest rate for the term of the partly paid share or option.

The model inputs for partly paid shares issued were as follows:

	2011 issues	2010 issue	2008 issue
• Market price or "hurdle price" required to enable the partly paid shares to be exercised:	25.2-25.6 cents	^{1.} 163.35 cents	^{1.} 599.2 cents
• Expected volatility of the Company's shares:	56% - 60%	42%	30.2%
• Risk-free interest rate:	2.5% - 3.5%	4.2%	5.77%
• Expected term:	2 - 3 years	3 years	3 years

1. Hurdle and issue prices adjusted for impact 20 for 1 share consolidation in June 2011.

(c) U.S. employee share options (numbers)

	2011 Share Options	2010 Share Options
Options outstanding at start of period	750,000	-
Granted	-	750,000
Exercised	-	-
Lapsed	-	-
Surrendered	-	-
Outstanding at end of period	750,000	750,000

24. Share Capital (continued)

The Annual Meeting held in June 2010 approved the establishment of the United States Share Option Plan and authorised the Board to issue up to 3,000,000 options. All options must be exercised within 12 months after the period of three years on which the options are issued. The price at which options can be exercised under the United States Share Option Plan is the closing sales price on the date of the grant plus a 30% premium. Further details of share options granted are summarised below:

Grant Date	Expiry date	Exercise price (cents) ¹	Outstanding at December 2011 (numbers)	Outstanding at December 2010 (numbers)
10 Aug 10	10 Aug 14	¹ 250.6	750,000	750,000
			750,000	750,000

The model inputs for partly paid shares issued were as follows:

	2010 issue
• Market price or “hurdle price” required (being the issue price plus 30%), to enable the partly paid shares to be exercised:	¹ 250.6 cents
• Expected volatility of the Company’s shares:	42%
• Risk-free interest rate:	4.2%
• Expected term:	3 years

1. Issue price adjusted for impact 20 for 1 share consolidation in June 2011.

(d) New Zealand Share options (numbers)

	2011 Share Options	2010 Share Options
Options outstanding at start of period	-	900,000
Exercised	-	-
Lapsed		(900,000)
Surrendered	-	-
Outstanding at end of period	-	-

At 31 December 2009, a number of grants of share options had been made pursuant to the Wellington Employees Share Option Plan (ESOP) to employees and the Chief Executive at that time. No new grants under this scheme are intended to be made. The ESOP was originally approved by shareholders at the General Meeting held on 28 November 2000. Subsequently in the Annual Meeting held on 14 November 2006 shareholder approval was granted to increase the number of options under the ESOP from 3,000,000 to 10,000,000 options. All options were exercisable 3 years after the vesting date (i.e. the date an offer to an employee or executive director is made to take up options) and must be exercised within 30 business days after the expiry of the 3 year period. The price at which options can be exercised under the ESOP is the weighted average market price for the 10 trading days on the N.Z. Stock Exchange prior to the date on which an offer is made plus a premium of 30%.

Further details of share options that lapsed are summarised below:

Vesting Date	Expiry date	Exercise price (cents) ¹	Outstanding at December 2011 (numbers)	Outstanding at December 2010 (numbers)
13 Mar 07	27 Apr 10	¹ 1,006	-	-
			-	-

1. The stated exercise price has been adjusted for the effect of cash issues in December 2005, June 2007 and March 2009 in accordance with the terms of the Wellington Employees Share Option Plan and for the impact of the consolidation in June 2011.

The fair value of the employee services received in exchange for the issue of partly paid shares or grant of options is recognised as an expense in accordance with the Group’s accounting policies.

25. ACCUMULATED LOSSES

	CONSOLIDATED 2011 \$000s	2010 \$000s	PARENT COMPANY 2011 \$000s	2010 \$000s
Opening balance	(78,551)	(63,769)	(79,217)	(65,158)
Loss for the year	(14,472)	(14,847)	(12,885)	(14,124)
Surrendered & lapsed employee share option scheme benefits	352	65	352	65
Accumulated losses at end of year	(\$92,671)	(\$78,551)	(\$91,750)	(\$79,217)

26. OTHER RESERVES

	CONSOLIDATED 31 Dec 11 \$000s	31 Dec 10 \$000s	PARENT COMPANY 31 Dec 11 \$000s	31 Dec 10 \$000s
Share option compensation reserve	140	305	140	305
Currency translation reserve	(1,564)	(1,701)	(1,832)	(1,607)
Hedging reserve	56	16	56	16
	(\$1,368)	(\$1,380)	(\$1,636)	(\$1,286)

(a) Share Option Compensation Reserve

Share based compensation recognised at start of year	305	208	305	208
Net compensation expensed	187	162	187	162
Surrendered & lapsed share option scheme transferred to accumulated losses	(352)	(65)	(352)	(65)
	\$140	\$305	\$140	\$305

A description of the Wellington Partly Paid Share Scheme and Employees Share Option Plan (ESOP) is provided in Notes 24(b) and 24(c) above.

(b) Currency Translation Reserve

Opening balance	(1,701)	(1,206)	(1,607)	-
Movements for the year	137	(495)	(225)	(1,607)
	(\$1,564)	(\$1,701)	(\$1,832)	(\$1,607)

The Currency Translation Reserve comprises of all foreign exchange differences arising from the translation of financial statements of foreign operations into New Zealand dollars.

The Parent changed its functional currency from New Zealand dollars to US dollars from 1 January 2010 whilst its presentation currency remained New Zealand dollars. In the Parent, the Currency Translation Reserve comprises all foreign exchange differences arising from the translation of financial statements its functional currency (US dollars) to New Zealand dollars for presentation purposes.

(c) Hedging Reserve

Opening balance	16	-	16	-
Cash flow hedge fair value gains for the year	40	16	40	16
Tax on fair value (losses)/gains	-	-	-	-
	\$56	\$16	\$56	\$16

The Hedging Reserve records the portion of the gain or loss on a hedging derivative in a cash flow hedge. The amounts are recognised in the Statements of Comprehensive Income when the associated hedge transactions affect profit and loss.

27. CONTINGENCIES

There are no material contingent liabilities or assets. In the prior year a contingent liability was disclosed in respect to an action relating to a previous distributor of the Company's products.

28. COMMITMENTS

(a) Capital commitments

There were no material capital commitments at 31 December 2011 (2010 - \$nil).

(b) Lease commitments : Group as lessee

The Group leases various offices, facilities and equipment. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Operating leases	CONSOLIDATED		PARENT COMPANY	
	31 Dec 11 \$000s	31 Dec 10 \$000s	31 Dec 11 \$000s	31 Dec 10 \$000s
Within one year	1,138	1,011	571	571
Later than one year but not later than five years	924	1,541	702	1,271
Later than five years	-	-	-	-
	\$2,062	\$2,552	\$1,273	\$1,842

29. RELATED PARTY TRANSACTIONS

(a) Directors

The names of persons who are directors of the Company are on page 9.

(b) Key management personnel and compensation

Key management personnel compensation for the years ended 31 December 2010 and 2011 is set out below. The key management personnel comprises the Directors including the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO.

	CONSOLIDATED		PARENT COMPANY	
	2011 \$000s	2010 \$000s	2011 \$000s	2010 \$000s
Salaries, fees and other short term benefits	1,352	1,606	1,014	1,063
Share based remuneration	128	120	128	120
Directors' remuneration (including CEO)	345	531	345	531
Restructuring termination benefits	329	-	329	-
Bonuses	52	106	44	86
Total	\$2,206	\$2,363	\$1,860	\$1,800

(c) Transactions

During the year the Parent purchased and sold stock to and from its subsidiaries and advanced loans to its subsidiaries. These transactions and balances are by way of internal current accounts that are set out below. In presenting the financial statements of the Group, the effect of these transactions and balances between subsidiaries and those with the Parent have been eliminated.

The main transactions between the Parent and its subsidiaries involve:

- Sales of product and components to Wellington Drive Technologies US, Inc., Wellington Motor Tecnolojileri San Tic Ltd Sti and Wellington Manufacturing Group Singapore Pte Ltd; and
- Purchases of product and components from Wellington Manufacturing Group Singapore Pte Ltd.

29. Related Party Transactions (continued)

	CONSOLIDATED		PARENT COMPANY	
	2011	2010	2011	2010
	\$000s	\$000s	\$000s	\$000s
The following transactions occurred with related parties during the year:				
Revenue – subsidiaries	-	-	7,768	6,191
Purchases – subsidiaries	-	-	13,181	10,401
Other expenses – subsidiaries	-	-	1,560	1,798
Loans to related parties – subsidiaries	-	-	(5,106)	9,262
Changes in provisions – loans to subsidiaries	-	-	2,063	(4,691)
Changes to provisions – investment in subsidiaries	-	-	(7,157)	(940)

Further details of transactions with directors can be found on pages 14 & 15.

Details of directors' shareholdings and movements therein can be found on pages 14 & 15.

(d) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	CONSOLIDATED		PARENT COMPANY	
	31 Dec 11	31 Dec 10	31 Dec 11	31 Dec 10
	\$000s	\$000s	\$000s	\$000s
Receivables from subsidiaries	-	-	342	-
Loans to subsidiaries	-	-	16,834	21,941
Provisions made in respect of loans to subsidiaries	-	-	(10,198)	(12,244)
Payables to key management personnel	212	290	195	272
Restructuring redundancy provisions	328	-	328	-
Payables to subsidiaries	-	-	(123)	(882)

(e) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties.

Outstanding balances are unsecured and are repayable on demand in cash.

30. EARNINGS PER SHARE

(i) Basic

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 year.

	2011	2010
Loss attributable to equity holders of the Company	(14,472,000)	(14,847,000)
Weighted average number of ordinary shares in issue (thousands)	66,734	* 56,805
Basic earnings per share	(21.68)	*(26.14 cents)
Basic earnings per share adjusted for post 2010 year-end issue*	n/a	*(26.06 cents)

(ii) Diluted

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.

	2011	2010
Loss attributable to equity holders of the Company	(14,472,000)	(14,847,000)
Weighted average number of ordinary shares in issue (thousands)	66,734	* 56,981
Adjustment for partly paid shares or share options	-	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	66,734	* 56,981
Diluted earnings per share	(21.68)	*(26.14 cents)
Diluted earnings per share adjusted for post 2010 year-end issue*	n/a	*(26.06 cents)

* In June 2011 the Company consolidated its shares on issue. The comparative figures have been amended to reflect the impact of the consolidation. Further at 31 December 2010, as a result of the issue shares subsequent to the 2010 year-end but before the date of the 2010 Annual Report, standards require the inclusion of the issued shares in the weighted average calculation at 31 December 2010. Accordingly, for 2010 the weighted average of shares on issue became 56,981,000 and the basic earnings per share was minus 26.06 post consolidation.

31. RECONCILIATION OF LOSS AFTER TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED 2011 \$000s	2010 \$000s	PARENT COMPANY 2011 \$000s	2010 \$000s
Loss after taxation for the period	(14,472)	(14,847)	(12,885)	(14,124)
Depreciation and amortisation	1,548	1,743	1,156	1,342
Impairment of fixed assets & intangibles	952	795	752	795
Share based payments	187	162	187	162
Inventory write downs	1,730	533	327	(25)
Provision for doubtful debts	(229)	(59)	(265)	(34)
Provisions made in respect of subsidiary advances	-	-	(2,063)	4,691
Provisions for subsidiary investments	-	-	7,195	940
Provision for warranty	703	112	703	112
Provision for restructuring	1,510	-	437	-
Net foreign exchange differences	368	(131)	(90)	(1,875)
Intercompany current accounts reclassified to advances to subsidiaries	-	-	(758)	(518)
Decrease/(increase) in trade and other receivables	1,572	(1,762)	1,126	(2,210)
Decrease/(increase) in inventories	1,572	(8,854)	(558)	(2,463)
(Decrease)/increase in trade and other payables	(1,959)	4,902	(431)	3,513
Net cash outflow from operating activities	(\$6,518)	(\$17,406)	(\$5,167)	(\$9,694)

Directory

Directors

Tony Nowell, *Chairman*

Shawn Beck

Dr Ray Thomson

Dr Rick Boven

Simon Mander

Senior Staff

Greg Allen, *Chief Executive Officer*

Steven Hodgson, *Chief Financial Officer*

David Howell, *Chief Technical Officer*

Lim, K.S., *Chief Operations Officer Singapore*

Ali Karahasanoğlu, *Sales Director, Europe/Eurasia*

Erick Layseca-Flores, *Business Development
Manager, Americas*

Bruce Farquharson, *Vice-President Delivery*

Raymond Wang, *Supply Chain Manager*

Wilson Poon, *Manufacturing Manager*

Marcia Swain, *Group Financial Controller*

Ron Jackson, *Secretary*

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