

Wellington®



Annual Report 2012

Our team serves some of the world's largest food and beverage brands and refrigeration manufacturers; providing advanced motors, airflow and control solutions that are helping lower their environmental footprint.

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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



9% points
Gross Margin
Increase



6%
Refrigeration
Revenue Growth



\$4.6 million
Operating Cost
Reduction



\$6.4 million
Inventory
Reduction

Gross Margin increased
from 5% to 14%

Refrigeration Revenue grew
by 6% to US\$20.6 million

Operating Costs reduced
by \$4.6 million to \$11.7 million

Inventory reduced
by \$6.4 million to \$4.5 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 energy saving electronic motors, airflow and electronic control solutions. This includes supporting customers in the development of their supply chain and technology roadmaps. Wellington has embarked on initiatives to shorten customer lead-times, reduce total supply chain cost and develop next generation products with the goal to take supply chain service and cost performance to the next level.

Report of the Chairman and Chief Executive Officer

2012 in Review

In 2012 the Wellington team made considerable progress in operating performance, working capital management and margin improvement. The team focused on centring the organisation on 'the voice of the customer'; improving business process and striving for execution excellence, which it believes will set the foundation for continuous financial improvement and a successful long term growth strategy. The team is particularly proud of the new customer momentum it generated in a year where the end market demand was very challenging; new accounts were added in Europe, Latin America and Canada.



The Gross Profit of NZ\$5.0m is an increase of NZ\$3.3m on the previous year and is the highest ever achieved by the company. The company's Gross Margin in 2012 was 14% and while short of our 17% year end run-rate target, showed significant improvement over the 5% achieved in 2011. This Gross Profit result is particularly pleasing given the backdrop of lower than expected sales in the European region throughout the year and lower demand across all regions in the September through November period. The Gross Profit improvement includes the release of stock and warranty provisions no longer required, and is also a result of operational improvements; including targeting higher margin sales activities, reductions in operating costs and cost reduction initiatives with major suppliers.

Earnings before Interest, Tax, Depreciation and Amortisation and Impairment (EBITDA) show a loss of NZ\$4.1m, a significant improvement over the previous year's loss of NZ\$12m. Wellington's total loss of NZ\$6.3m was also an improvement over the 2011 loss of NZ\$14.5m.

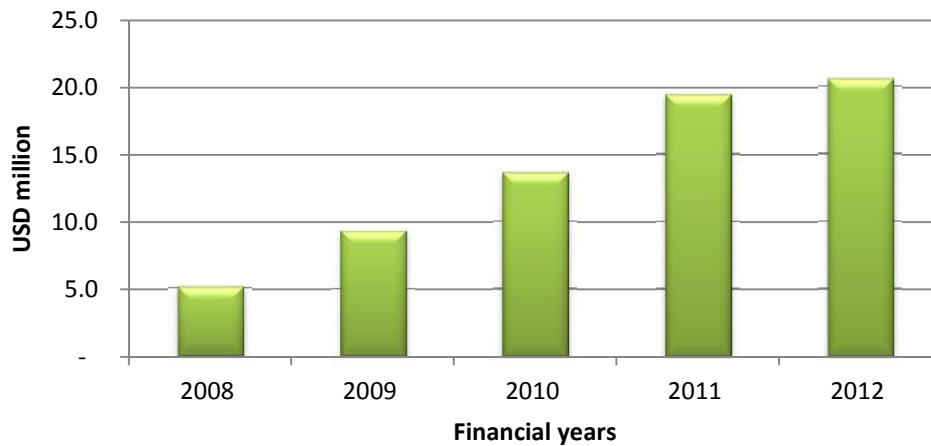
Operating expenditure of NZ\$11.7m was down NZ\$4.6m, 28% less than the NZ\$16.3m recorded in 2011. This reflects a significant reduction in headcount associated with the cessation of internal manufacturing in Singapore and the benefits of our lean business improvement programme that is focused on eliminating wasteful business processes and reducing associated costs.

Wellington's 2012 results include some significant non-recurring items reflecting the turnaround nature of the year. The major items were:

- The Gross Profit outcome includes the impact of releasing some unused inventory and warranty provisions that were taken in 2011 – these amounted to a \$748,000 benefit to reported Gross Profit. Partially offsetting this was our aggressive approach to inventory reduction which meant that we made some sales at low or even zero margin.
- As noted in our interim report, a review of our product roadmap resulted in a write-off of NZ\$950,000 of previously capitalised development expenditure.

A highlight of 2012 was the substantial improvement in inventory performance. Wellington's inventory balance at 31 December 2012 was NZ\$4.5m, a NZ\$6.4m reduction from the 2011 figure of NZ\$10.9m and a 70% improvement on the NZ\$14.2m held at the end of 2010. Our inventory velocity was a much improved 5 inventory turns at the end of 2012 compared to 1.5 inventory turns at the end of 2011. This improvement was driven largely by the adoption of improved demand and supply management processes, strong focus on the sell down of aged inventory and the implementation of an improved excess and obsolete material management process in partnership with our supply base.

Commercial refrigeration revenue



Sales growth was driven by a strong performance in our Latin American business, which helped to offset weak end market demand in Europe. For 2012 Wellington reported revenue of NZ\$35.6m, a 2% increase over 2011. Total Commercial Refrigeration revenues grew in US Dollar terms by 6%. Latin America performed well with US Dollar revenue growth of 28%, while the seasonal dynamic of the region showed a stronger than normal first half, followed by a very weak third quarter before closing with strong volume growth in fourth quarter. The European market declined mainly as a result of the European economic issues, with Refrigeration revenues down 43% compared to 2011. We remain cautious about the European market as the company enters 2013.

In Asia Pacific we continued to support our Global OEM partner factories and our two largest Asia based Refrigeration customers, experiencing revenue growth of 55%. While Asia Pacific sales are currently a small part of the total group we anticipate increased business development activity in this region through 2013.



Strategic Review and Turnaround Plan

In the 2011 Annual Report the company stated it was commencing a full strategic review of the business. The outcome of this review was the creation of a turnaround plan with five main priorities for the 2012 financial year.

2012 - Five Main Priorities

1. Complete the exit from the Singapore manufacturing of ventilation motors and move to an outsourced supply chain

The Ziehl-Abegg project was completed on plan and on budget in June 2012. All manufacturing activities in Singapore have now ceased and we have moved to a total outsourced manufacturing model. The successful completion of this priority has also supported our overall inventory reduction and operating expenditure improvement plans. We are investigating further outsourcing strategies to deliver additional cost reduction and supply chain improvements.

2. Reduce supply chain costs and shorten customer lead times

The company's lead-time reduction programme progressed well in 2012 with a 27% reduction versus 2011. This was achieved through implementing an improved demand-supply planning process, introducing lean manufacturing practices in our partner's motor factory and reducing cable component logistics lead-time. Our Cost of Goods Sold improved to 86% of revenue, an improvement from 95% of revenue in 2011. This improvement was delivered through collaborative cost reduction projects with suppliers, the near elimination of air freight costs, and significant reduction in operational mistakes that had caused write-offs and substantially driven costs in previous years.

3. Reduce inventory levels

Inventory levels declined from NZ\$10.9m at 31 December 2011 to NZ\$4.5m at the end of 2012. The NZ\$6.4m reduction exceeded our planned objective of NZ\$3-5m. Reductions in inventory have occurred across all areas of the business and are a result of the completion of manufacturing in Singapore and subsequent clean-up of related materials, improved demand planning and order management processes, focused excess and obsolete inventory reduction programmes at suppliers, improved commercial terms with customers, and special sales programmes targeted at bringing in-market finished goods down to levels that match customer demand.

4. Cost reduction through introduction of lean business practises and improved management operating systems

In the first quarter of 2012 the company introduced a new role of Company Lean Champion to help deliver on-going business improvement. Wellington is at the beginning of its lean transformation journey and in 2012 began a training and development program to learn how to remove wasteful 'non value added' processes. In 2012 the team improved several critical business processes; including implementing a new management operating system to measure and manage business performance, improved financial forecasting and planning, and introduced a lean design approach called 'Sprint' that allows us to accelerate our innovation. A facilities and space reduction initiative successfully reduced the cost of the New Zealand office by \$180,000 annually and the company's Chicago office was closed down; further reducing annual facilities costs by \$80,000. Additional reductions are anticipated in 2013 as the Singapore office space is downsized.



5. Develop deeper value added relationships with customers and suppliers

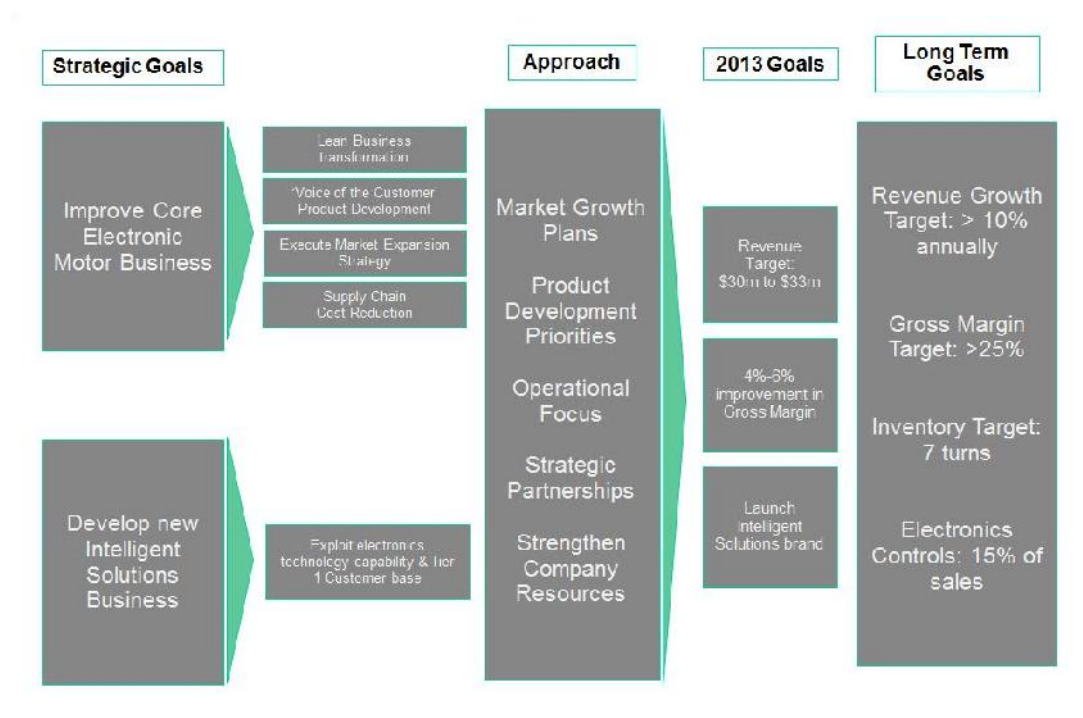
Wellington undertook a complete review of its existing product solutions roadmap and its future product development opportunities, which included extensive time spent in the field listening to 'the voice of the customer'. The revised product road map now includes providing energy saving 'Intelligent Electronic Control Solutions' to customers rather than just offering 'stand-alone' motor components. The new road map is intended to drive deeper value added customer relationships based around reducing the 'total cost of ownership' of the refrigeration system and further improving energy efficiency in the refrigeration system. We also began to develop relationships with the global food and beverage brands. These brands often steer refrigeration technology decisions and can influence market R&D and supply chain investment decisions. Further development initiatives with these brands will be a feature of our 2013 priority list. Despite the weak European end market demand in 2012 we maintained our business development focus in that region, which resulted in winning four new European OEM customers. Globally we won a further two new OEM's, one each in India and Canada and Wellington's products were qualified by two new global retail brands. We started to see orders from these new customers in December 2012.

Wellington's Strategic Plan

The 2012 Turnaround Plan priorities were focused on improving near term operating performance and earning the right to have a long term growth strategy. Improvements being achieved in the first half of 2012 indicated that the company was moving in the right direction and supported a new long term strategy approved by the Board in August 2012.

The revised Wellington strategy is clear and simple – it is focused on:

1. Continued growth and financial improvement in our core Electronic Motor and Airflow Solutions business through improved market expansion, cost reduction programmes and lean business process improvements.
2. Innovating for our customers in Intelligent Electronic Control Solutions by exploiting the company's strong electronics and software skills and solving the needs of its Tier 1 customer base.



This strategy will ensure we continue to focus on growing our motor business through improving customer service, operational performance and developing low cost supply chain solutions, while simultaneously developing new products that go 'beyond the motor' to lower total refrigeration system costs and improve energy efficiency. A market analysis in support of the new strategy concluded that there is continued market growth opportunity for the products and solutions Wellington provides and plans to develop, with a business model that has the potential to deliver improved shareholder value.

The strategic plan has resulted in five main priorities for 2013 that are intended to deliver further financial improvement, continued innovation leadership and to set up 2014 as a breakthrough year for both product releases and better financial outcomes.

2013 – Five Main Priorities

1. Market Expansion through Deeper Value Added Relationships with Customers

The 2012 focus to develop deeper value added relationships with customers has provided an improved understanding of customer requirements and uncovered a number of unmet needs. This has resulted in a revised product road map for our motor business and also a new strategy of developing 'Intelligent Electronic Control Solutions'.

The Control Solutions product portfolio will be focused on solving refrigeration system performance needs, reducing total product cost and further improving energy efficiency. We intend to deliver a range of advanced electronic control solutions to the market over the next 36 months, with the first product launch in 2014. The company has already commenced shipment of demonstrator 'Intelligent Solution' modules to selected global retail brands; with the first prototype having already been delivered to a large soft drink brand in January 2013.



Near term growth continues to be driven by our Commercial Refrigeration EC motor business. In our strongest market segment of beverage and ice cream coolers, the shift from induction motors to energy efficient EC motors is still relatively early. We expect our estimated 10% share of new motors installed to grow, with recent customer wins and expansion into geographies like India and Eastern Europe. In addition there are commercial refrigeration segments, such as supermarket display cases where Wellington's share of new motor build is estimated at 2%, and the company has not historically had high penetration. We are currently winning customers in this segment and expect continued market share growth over the next 24 months.

2. Shorten Customer Lead-times

The company sees this priority, continuing from 2012, positively impacting customer satisfaction, revenue and reducing cost; it remains an important on-going objective for the business. Our goal in 2013 is to reduce lead-times by a further 10% or 7 days. Several projects are already underway including optimising component supply lines to shorten logistics paths, working with manufacturing partners to optimise procurement processes and working with customers on strategic regional inventory.

3. Cost Reduction

This priority, also continuing from 2012, includes both supply chain cost reduction and operating cost improvement.

In 2013 the company will target supply chain cost reductions of 5% to 10% by year end. This outcome will be driven by collaborative cost reduction programmes with suppliers, continued improvement in manufacturing efficiency (at partner factories) and increased focus on product cost reduction. Selected

cost reduction proposals being discussed with suppliers are dependent on Wellington reducing payment terms to those suppliers.

4. Strategic Partner Programme

In the third quarter of 2012 the Board determined that to improve the growth potential of Wellington and improve its flexibility to support new customer opportunities the company would seek a Strategic partner. This partner would provide Wellington with both capability and capital; capability investment could include lower cost supply chain services, access to broader technology resources, new distribution channels or customer synergies. Partner targeting and initial discussions have been underway over the last four months and it is envisaged this partner process will take the duration of 2013 to complete. The intended result of this programme will be a collaborative partnership that supports Wellington's improvement and growth strategy and provides further opportunity for shareholder value creation. The capital provided from a successful strategic partner program will support the company's investment and growth plans and has been assumed in our financial outlook for 2013.

5. Strengthen Company Resources

The company's 2013 plan includes organisational changes and investments to support execution of a number of cost reduction and growth initiatives including; improving payment terms with major suppliers to access supply chain cost reductions, investing in the new 'Intelligent Solutions' product roadmap, investing in skills needed to accelerate growth, improving customer commercial terms and implementing strategic regional inventory to reduce lead times.

SuperLife Investment Placement

In September 2012 Wellington concluded a placement of 13.4 million shares to SuperLife Investments at a price of 15.5c per share, which raised NZ\$2m. The capital raised has increased Wellington's immediate financial flexibility, allowed selected hiring to support new product roadmap developments and has allowed Wellington to shorten credit terms with some suppliers, which opened the possibility of improved pricing terms with those suppliers. The SuperLife placement was also an indication of increased investor interest in Wellington's new strategic direction and the planned financial improvement that has started to be demonstrated in 2012.

2013 Outlook

2012 was the year the new Wellington was launched with an overhaul of critical operating process and the launch of the new business strategy. The majority of the issues that caused past performance failures were understood and resolved and remaining issues are actively being worked on as part of the 2013 operating plan. Wellington's financial performance in 2012 showed a marked improvement over previous years; with substantially reduced inventory, gross margin expansion, and a significant reduction in the company's losses.

In 2013, Group revenues are expected to be in the range of \$30m and \$33m with Commercial Refrigeration US Dollar revenues projected to grow by 22%. This growth will partially offset the absence of ventilation sales, with those sales projected at only US\$1.6m compared to US\$7.6m achieved in 2012. The company's forecast for 2013 assumes an exchange rate of US\$0.85 = NZ\$1.

For 2013 Wellington is planning a further gross margin improvement of between 4% and 6% versus the 2012 reported number. The company expects a further reduction in its EBITDA loss with a full year targeted loss below NZ\$3.0m. It is expected that the improvements planned in 2013 will set the company up for its first positive EBITDA result in 2014. Management accounts for January 2013 show revenues of \$3.1m and gross margin of 15.6%, consistent with plan expectations.

Management Changes

Through the course of 2012, and as part of the strategic review process an assessment was made of the organisation and skills needed to execute the turnaround plan and new business strategy. Changes already made include the second quarter 2012 hiring of a senior manager to run the Americas Operations and the restructuring of the Singapore organisation to replace the Chief Operations Officer role with a new role of Global Manufacturing Manager.

To support acceleration of our growth activities; two further changes in the senior executive team are anticipated to take effect from Q2 2013; our CFO Mr Steve Hodgson will be assuming the role of Senior Vice President, Commercial, which will include accountability for customer account management, sales management and supplier management activities. He will be replaced in the CFO role by Mr Howard Milliner, our current Group Financial Controller. Mr Milliner is a chartered accountant with previous public company experience in both CFO and CEO roles in New Zealand and internationally.

In addition we have recently hired Mr Gerardo Gonzalez, an experienced strategy and business development professional from the refrigeration controls industry, as the leader of our new Intelligent Solutions business. Gerardo will be accountable for executing our growth plans in this new market and will be based in Atlanta, Georgia to be close to some of our most important customers.

Governance

Over the last 12 months, the changes at Wellington have strengthened the company with the Board and management setting a clear direction for the future. Wellington is now moving to the next phase of its development and growth and the Board has been encouraged by feedback from both investors and its global customers. The company is well positioned to take advantage of the opportunities ahead.

To provide the best governance possible to support the next phase of development and growth, the Board is actively assessing new Board candidates who have the requisite operational knowledge, international domain experience and governance credentials to help guide Wellington on its growth and development path. The Board will appoint these new directors as soon as is practically possible, replacing current directors who will retire from the Board; including Dr Rick Boven who has tendered his resignation with effect from the 2013 Annual General Meeting.



.....
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 and management consultant with experience in the United States and Australia, as well as New Zealand, in the areas of business strategy and operational effectiveness. Dr Boven is a past 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.

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 Chairman of Manuka Health New Zealand Ltd. Dr Thomson has a strong interest in the commercialisation of innovative technologies, being on the Auckland Ice Angel Advisory Board and Chairman of 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 – Chief Executive Officer



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 organisations 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. 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. As the result of the move to an outsourced supply chain, and the disestablishment of COO role, Mr Lim will leave the business effective April 2013.

Ali Karahasanoglu – Sales Director, Europe, Middle East and Asia



Mr 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 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.

Howard Milliner – Group Financial Controller



Howard Milliner joined Wellington in November 2012. He holds a BCom from Auckland University and is a Chartered Accountant. He was previously CFO of a N.Z. listed engineering business for 14 years and was its CEO / CFO for 7 of those years.

Gabriel Villalobos Cid – Director of Finance Administration & Operations, Americas



Mr Villalobos Cid is a Public Accountant with a Masters Degree in International Business Administration. He joined Wellington in February 2012 as the Regional Controller and in December 2012 assumed the additional role of Regional Operations Manager. Prior to joining Wellington Mr. Villalobos worked with international companies such as Kellogg's (Cereal), Noble International (Automotive) and Procesa (Tuna) in various senior Financial roles including Group Controller and Director of Finance.

Gerardo Gonzalez – Vice President and General Manager, Intelligent Systems Business Unit



Mr. Gonzalez joined Wellington in February 2013 as Vice President and General Manager of Intelligent Solutions Business. He will be responsible for the business development and general management of the new Electronic Controls Business Unit. In addition, he has been appointed as the executive accountable for the company's relationship with The Coca-Cola Company. Mr. Gonzalez has global business development and strategic planning experience in the Carbonated Soft Drink and Beer Industry. Mr. Gonzalez resides in Atlanta, Georgia, and holds a BS in Economics from Monterrey Institute of Technology, and an MBA from Emory University.

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 11.

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 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 16 in the Annual Report.

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 auditor; 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 auditor 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 Shawn Beck (Chairman), Tony Nowell 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 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.

Statutory Information

Introduction

Directors have resolved that no dividend be declared payable.

Audit fees received or due and receivable by PricewaterhouseCoopers are \$95,000 (2011 - \$100,000).

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.

Remuneration of Directors

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

	2012	2011
Mr T. Nowell	\$50,000	\$50,000
Dr R. Boven	\$28,000	\$28,000
Mr S. R. Beck	\$28,000	\$28,000
Dr. R. J. Thomson	\$28,000	\$28,000
Mr S. J. Mander	\$28,000	\$28,000
Dr R. M. Green ¹ .	\$ -	\$183,172

Notes

1. 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 2012 was \$42,826 (2011 - \$29,417).
- Directors' Share Transactions – No directors acquired or disposed of any shares in the Company during the year. Details of numbers of shares held by directors are shown below.
- Directors' Loans - There were no loans by the Company to Directors.
- Key Management Share Transactions – Other than as a result of resignations or restructuring, there were no changes in interests held by key management during the year. Resignations of staff resulted in a reduction of shares held by key management as follows: 372,290 ordinary shares; 201,948 part paid shares; and 250,000 US Options. Other management changes resulted in 162,582 part paid shares already on issue being deemed to be held by key management. At year end, key management held 1,266,243 ordinary shares, held 1,841,535 part paid shares and held 250,000 US share options. Further details of part paid shares and options can be found in Note 24. Senior staff (or key management) are listed in the Directory on page 58.

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 2012		31 December 2011	
	Total Relevant Interest	Direct	Total Relevant Interest	Direct
Mr T. Nowell	88,750	-	88,750	-
Mr S. R. Beck	300,572	-	300,572	-
Dr R. Boven	120,388	69,910	120,388	69,910
Dr R. J. Thomson	3,253,960	-	3,253,960	-

Notes Dr R.J. Thomson has interests in shareholders Gurkha and Waikiwi Trusts listed on page 18.

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 COMPANY	
	2012	2011	2012	2011
\$100,000 - \$109,999	3	-	1	-
\$110,000 - \$119,999	1	2	1	1
\$130,000 - \$139,999	1	4	1	2
\$140,000 - \$149,999	1	1	1	1
\$150,000 - \$159,999	1	3	1	1
\$160,000 - \$169,999	-	2	-	1
\$170,000 - \$179,999	1	1	1	1
\$180,000 - \$189,999	1	-	-	-
\$210,000 - \$219,999	-	1	-	-
\$210,000 - \$229,999	1	-	-	-
\$220,000 - \$239,999	2	-	1	-
\$340,000 - \$349,999	1	-	1	-
\$380,000 - \$389,999	-	1	-	-
\$390,000 - \$399,999	1	-	1	-

* This table includes the final payment made to the former CEO, Dr Ross Green.

Director's Certification to NZX

The independent directors approved the remuneration of the company's Vice President and General Manager Intelligent Systems Business Unit, Gerardo Gonzalez Arrache, comprising base salary, short term incentive component and benefits which if fully paid in any year would be less than the threshold amount in Listing Rule 9.2.4 (g), plus a long term incentive plan, the terms and target amount of which are yet to be finalised, and which, if a payment were to be made under the long term incentive plan, might result in the foregoing threshold amount in Listing Rule 9.2.4 (g) being exceeded. The company relied on the exception in NZSX Listing Rule 9.2.4(d) which allows the Company to approve the remuneration of the Vice President and General Manager Intelligent Systems Business Unit.

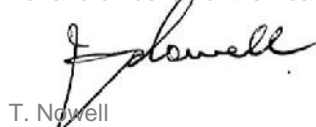
NZX Waivers

In accordance with NZ Stock Exchange Listing Rule 10.5.3(f), there were no waivers granted by the NZ Exchange during the year ended 31 December 2012.

Auditors

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

For and on behalf of the Board



T. Nowell
Chairman
27 February 2013

Shareholder Information

Shareholders

As at 31 December 2012 there were 2,610 shareholders and 80,766,450 fully paid ordinary shares on issue.

Share Issues

On 5 October 2012 the Company issued 13,400,000 ordinary shares to SuperLife Trustee Nominees Ltd at 15.5 cents each, held on behalf of SuperLife Investment Limited. This issue raised \$2.077 million.

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 18 February 2013:

20 largest shareholders

1.	N.Z. Central Securities Depository Ltd	29,034,413
2.	SuperLife Trustee Nominees Ltd	11,700,000
3.	Investment Custodial Services Ltd	2,684,354
4.	SuperLife Trustee Nominees Ltd (Gemino Account)	1,700,000
5.	Waikiwi Trust *	1,644,889
6.	Gurkha Trust*	1,609,071
7.	Jangada Trust	995,913
8.	Flynn No 2 Trustees Ltd	928,138
9.	Tane Nui Family Trust	900,000
10.	Wairahi Trust	818,143
11.	ASB Nominees Ltd	782,766
12.	Diab Investment NZ Ltd	755,215
13.	Wairahi Holdings Ltd	700,000
14.	Graham Trustees Ltd	676,094
15.	K.F. Bennett	622,957
16.	I. Douglas Family Trust	518,929
17.	M.J. Springford	500,000
18.	FNZ Custodians Ltd	491,986
19.	Coldham Trust	384,196
20.	J. Whale Family Trust	374,209

Note 1. N.Z. Central Deposit Securities Depository Limited hold shares on trust for 9 different shareholders. The largest of these are: JPMorgan Chase Bank NA – 18,737,013 shares; Accident Compensation Corporation – 3,330,844 shares; TEA Custodians Ltd – 3,040,172 shares; BNP Paribas Nominees (N.Z.) Ltd – 1,856,363 shares; Newburg Nominees Ltd – 788,888 shares; and BNP Paribas Nominees (N.Z.) Ltd – 711,284.

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

Distribution of Equity Securities

Size of Holdings (at 18 February 2013)			Shareholders		Fully Paid Ordinary Shares	
			Number	%	Number	%
1	-	999	1,161	44.61	410,812	0.50
1,000	-	1,999	314	12.06	421,808	0.52
2,000	-	4,999	403	15.48	1,256,580	1.56
5,000	-	9,999	244	9.37	1,640,605	2.03
10,000	-	49,999	362	13.91	7,557,624	9.36
50,000	-	99,999	54	2.07	3,406,780	4.22
100,000	-	499,999	47	1.81	9,089,958	11.26
500,000	-	999,999	12	0.46	8,722,729	10.80
over		1,000,000	6	0.23	48,259,554	59.75
			2,603	100.00	80,766,450	100.00

2,474 (or 95%) shareholders, holding 78,743,460 shares (or 97.5%) 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
SuperLife Trustee Nominees Ltd	13,709,003	28 Sep 2012
Hunter Hall Investment Management Ltd	17,102,344	05 Oct 2012
Harbour Asset Management Ltd	7,408,280	08 Oct 2012

[#]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. 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.

During the year Accident Compensation Corporation advised they ceased to be a Substantial Security Holder.

Shareholder Enquires

Shareholders should send changes of address to Computershare Investor Services Limited at the address noted in the Directory on page 58. 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 Auditor's 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 22 to 57, which comprise the statements of financial position as at 31 December 2012, the statements of comprehensive income, statements of movements in equity and cash flow statements for the year then ended, and 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 2012 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.

Auditor's 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 entity'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 entity'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 22 to 57:

- (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 2012, and their financial performance and cash flows for the year then ended.

Emphasis of Matter

Without qualifying our opinion, 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 that may cast significant doubt about 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.

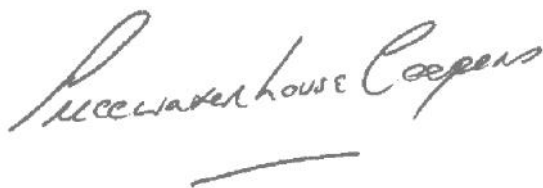
Report on Other Legal and Regulatory Requirements

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 2012:

- (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.

A handwritten signature in dark ink, reading "PricewaterhouseCoopers", with a horizontal line underneath.

Chartered Accountants
27 February 2013

Auckland

Statements of Comprehensive Income

for the year ended 31 December 2012

	Note	CONSOLIDATED		PARENT COMPANY	
		2012	2011	2012	2011
		\$000s	\$000s	\$000s	\$000s
Revenue	7	35,562	34,985	34,395	33,452
Cost of sales		(30,590)	(33,266)	(31,450)	(30,510)
Gross profit		4,972	1,719	2,945	2,942
Other income	8	493	155	314	194
Operating expenses	9	(11,745)	(16,334)	(10,491)	(16,021)
Loss before interest & taxation		(6,280)	(14,460)	(7,232)	(12,885)
Finance income		12	76	11	76
Finance expenses	9	(51)	(88)	(49)	(76)
Loss before income tax		(6,319)	(14,472)	(7,270)	(12,885)
Income tax expense	10	(14)	-	-	-
Loss for the year		(6,333)	(14,472)	(7,270)	(12,885)
Other comprehensive income:					
Exchange differences on translating operations	26	(746)	137	(611)	(225)
Cash flow hedge	26	(58)	40	(58)	40
Income tax relating to other comprehensive income		-	-	-	-
Other comprehensive income/(loss) for the year		(804)	177	(669)	(185)
Total comprehensive loss for the year		(\$7,137)	(\$14,295)	(\$7,939)	(\$13,070)
Loss for the year attributable to the Owners of the Company		(\$6,333)	(\$14,472)	(\$7,270)	(\$12,885)
Total comprehensive loss attributable to the Owners of the Company		(\$7,137)	(\$14,295)	(\$7,939)	(\$13,070)
Basic earnings per share – cents	30	(8.97)	(21.68)		
Diluted earnings per share – cents	30	(8.97)	(21.68)		

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 2012

CONSOLIDATED 2012	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
Balance at beginning of year		106,519	(92,671)	(1,368)	12,480
Comprehensive Income					
Loss for year		-	(6,333)	-	(6,333)
Other comprehensive income					
Exchange differences on translating operations	26b	-	-	(746)	(746)
Cash flow hedge	26c	-	-	(58)	(58)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(6,333)	(804)	(7,137)
Share option compensation expensed	26a	-	-	118	118
Contributions of equity	24	2,025	-	-	2,025
Refunds of lapsed part paid shares	25,26a	-	-	-	-
Balance at end of year		\$108,544	(\$99,004)	(\$2,054)	\$7,486

CONSOLIDATED 2011	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
Balance at beginning of year		98,199	(78,551)	(1,380)	18,268
Comprehensive Income					
Loss for year		-	(14,472)	-	(14,472)
Other comprehensive income					
Exchange differences on translating operations	26b	-	-	137	137
Cash flow hedge	26c	-	-	40	40
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(14,472)	177	(14,295)
Share option compensation expensed	26a	-	-	187	187
Contributions of equity	24	8,320	-	-	8,320
Refunds of lapsed part paid shares	25,26a	-	352	(352)	-
Balance at end of year		\$106,519	(\$92,671)	(\$1,368)	\$12,480

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

Statements of Movements in Equity (continued)

for the year ended 31 December 2012

PARENT COMPANY 2012	Note	Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
Balance at beginning of year		106,519	(91,750)	(1,636)	13,133
Comprehensive Income					
Loss for year		-	(7,270)	-	(7,270)
Other comprehensive income					
Exchange differences on translating operations	26b	-	-	(611)	(611)
Cash flow hedge	26c	-	-	(58)	(58)
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(7,270)	(669)	(7,939)
Share option compensation expensed	26a	-	-	118	118
Contributions of equity	24	2,025	-	-	2,025
Refunds of lapsed part paid shares	25,26a	-	-	-	-
Balance at end of year		\$108,544	(\$99,020)	(\$2,187)	\$7,337

PARENT COMPANY 2011		Share capital \$000s	Accumulated losses \$000s	Other reserves \$000s	Total equity \$000s
Balance at beginning of year		98,199	(79,217)	(1,286)	17,696
Comprehensive Income					
Loss for year		-	(12,885)	-	(12,885)
Other comprehensive income					
Exchange differences on translating operations	26b	-	-	(225)	(225)
Cash flow hedge	26c	-	-	40	40
Income tax relating to other comprehensive income		-	-	-	-
Total comprehensive income		-	(12,885)	(185)	(13,070)
Share option compensation expensed	26a	-	-	187	187
Contributions of equity	24	8,320	-	-	8,320
Refunds of lapsed part paid shares	25,26a	-	352	(352)	-
Balance at end of year		\$106,519	(\$91,750)	(\$1,636)	\$13,133

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

as at 31 December 2012

For and on behalf of the Board

Director
27 February 2013

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Cash Flow Statements

for the year ended 31 December 2012

	Note	CONSOLIDATED		PARENT COMPANY	
		2012	2011	2012	2011
		\$000s	\$000s	\$000s	\$000s
Cash flows from operating activities					
Receipts from customers exclusive of GST		33,566	36,337	26,166	20,876
Receipts from Group Companies		-	-	5,766	5,543
Payments to suppliers and employees exclusive of GST		(38,386)	(44,274)	(25,235)	(29,561)
Payments to Group Companies		-	-	(8,028)	(2,262)
Interest paid		(51)	(88)	(49)	(76)
Interest received		12	76	11	76
Taxation paid		(14)	-	-	-
Net GST received		1,420	1,431	225	237
Net cash outflow from operating activities	31	(3,453)	(6,518)	(1,144)	(5,167)
Cash flows from investing activities					
Payments for plant and equipment	16	(137)	(503)	(116)	(313)
Payments for intangible assets	17	(375)	(949)	(368)	(941)
Proceeds from sale of plant and equipment		271	-	(4)	2
Payments (to) / from Group Companies		-	-	(2,223)	5,106
Investment in subsidiaries		-	-	-	(7,000)
Net cash outflow from investing activities		(241)	(1,452)	(2,711)	(3,146)
Cash flows from financing activities					
Cash proceeds from share issues, net of issue costs		2,025	8,320	2,025	8,320
Proceeds from bank finance facilities		10,750	10,674	10,748	10,673
Repayments of bank finance facilities		(10,704)	(10,071)	(10,704)	(10,067)
Finance lease payments		(70)	(53)	(70)	(53)
Net cash inflow from financing activities		2,001	8,870	1,999	8,873
Net increase in cash and cash equivalents		(1,693)	900	(1,856)	560
Cash and cash equivalents at the beginning of the financial period		3,628	2,900	2,715	2,385
Effect of exchange rate movements on cash		(66)	(172)	(66)	(230)
Cash and cash equivalents at end of year	12	\$1,869	\$3,628	\$793	\$2,715

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 2012

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 27 February 2013. 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 assumption

The Group reported a loss of \$7,137,000 (2011: \$14,295,000) and operating cash outflows of \$3,453,000 for the year ended 31 December 2012 (2011: \$6,518,000).

These financial statements have been prepared under a going concern assumption. The directors have reviewed cash flow projections of the Group which are based on a number of assumptions including:

- *Working capital investment in line with plan.* Inventory levels have declined considerably since December 2011 and maintenance of the current low level of inventory and additional reductions are dependent on a number of issues including improvements to sales and operational planning processes and acceptance by customers of minimal safety stock levels.
- *Continuity of major customers and existing terms.* Due to global economic uncertainty, particularly with European demand, forecasting sales, revenue growth, prices and terms remain uncertain. Major customers regularly seek to renegotiate price, payment and delivery terms with the Group. There is no guarantee that the current price and terms that have been assumed in the company's projections will be sustained following completion of customer negotiations. Wellington is currently involved in negotiations on supply terms with the company's largest customer.

2. Summary of significant accounting policies (continued)

- *Achievement of forecasted sales growth and unit sales to customers.* In addition to the usual product and pricing considerations, increasingly customers are interested in the Group's supply capabilities and use a wide range of criteria to assess this. These reviews often include assessing the Group's financial resources as well as operational effectiveness. The ability to win new business and maintain current business is impacted by the somewhat unpredictable outcomes of these customer reviews.
- *Maintenance of existing contractual supplier relationships on acceptable commercial terms, including through periods of fluctuating demand.* Periodically the Group has operated outside its formally agreed payment terms with major suppliers while retaining support from these suppliers. This currently is the situation with several suppliers and the cash forecasts assume that this level of support will continue in the future.
- *Availability of significant components and prices of components and other input costs are maintained at current levels.*
- *Debtor factoring facilities are available at forecast levels.*
- *Foreign exchange rates in line with the forecast assumptions, being US\$/NZ\$ rate of 0.85 and US\$/Euro rate of 1.31.*

The Group's cash forecast shows that the Group has sufficient cash resources to operate for the next 12 months, without raising further capital. However, this forecast is based on the assumptions and is subject to the risks highlighted above.

The Group has initiated a project to find a strategic partner to provide both capital and non-financial support. A strategic partner, as envisaged, would both reduce risks associated with achieving projected levels of cash in the forecast and provide support to grow the business beyond the 12 month cash projection. Directors have assumed that capital would be forthcoming from this source or from other financial sources within the next 12 months in arriving at the going concern conclusion.

Whilst the Directors believe that the Group's forecast trading performance along with the additional capital described above will provide the Group with adequate levels of financing and liquidity for the foreseeable future, the Directors acknowledge that the above assumptions represent 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. The Group may therefore be required to seek further funding from shareholders, other investors or lenders to provide the Group with appropriate liquidity and secure the Group'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 2012 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.

2. Summary of significant accounting policies (continued)

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 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 of the Group.

(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, rounded to the nearest thousand, which is the Group's presentation currency.

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

(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.

2. Summary of significant accounting policies (continued)

(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.

(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 on-going 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 26. The fair value of a hedging

2. Summary of significant accounting policies (continued)

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.

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 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).

2. Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term and 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. 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 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 and impairments. 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

2. Summary of significant accounting policies (continued)

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.

(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.

2. Summary of significant accounting policies (continued)

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.

(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 partly 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.

2. Summary of significant accounting policies (continued)

(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

Harmonisation Amendments FRS44 New Zealand Specific Disclosure. FRS44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs.

The Harmonisation Amendments amends various NZ IFRSs for the purpose of harmonising with the source IFRSs and Australian Accounting Standards. The significant amendments include:

- Deletion of the requirement for an independent valuer to conclude the valuation of investment property and property, plant and equipment;
- Inclusion of the option to account for investment property using either cost or fair value model;
- Introduction of the option to use the indirect method of reporting cash flows that is not currently in NZ IAS 7.

In addition, various disclosure requirements have been deleted.

These amendments have had no impact on the Group 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 January 2012 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 2015). 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 January 2015.
- *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"*, effective from 1 January 2013, establishes a single source of guidance for measuring fair value and expands the current disclosure requirements. NZ IFRS 13 does not change when an entity is required to use fair value, but provides guidance on how to determine fair value when another IFRS requires or permits an item to be measured at fair value. This standard is not expected to significantly impact the Group.
- *NZ IAS 1 Amendments Presentation of Items of Other Comprehensive Income (effective 1 July 2012)*. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 January 2013.

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. Some revenue is 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 are declining as a result of the previously 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.

2012 NZ\$000s	CONSOLIDATED			PARENT COMPANY		
	Carrying Amount	NZD +10% Profit / Equity	NZD -10% Profit / Equity	Carrying Amount	NZD +10% Profit / Equity	NZD -10% Profit / Equity
NZD cash	365	37	(37)	365	37	(37)
NZD accounts receivable	55	6	(6)	55	6	(6)
NZD accounts payable	(485)	(49)	49	(485)	(49)	49
Total NZD		(\$6)	\$6		(\$6)	\$6
SGD cash	308	31	(31)	1	-	-
SGD accounts receivable	-	-	-	-	-	-
SGD accounts payable	(35)	(4)	4	1	-	-
Total SGD		\$27	(\$27)		\$-	\$-
EUR cash	144	14	(14)	64	6	(6)
EUR accounts receivable	382	38	(38)	42	4	(4)
EUR accounts payable	(99)	(10)	10	(29)	(3)	3
EUR bank finance liability	(193)	(19)	19	(193)	(19)	19
Total EUR		\$23	(\$23)		(\$12)	\$12
YTL cash	191	19	(19)	-	-	-
YTL accounts payable	(24)	(2)	2	-	-	-
Total YTL		\$17	(\$17)		\$-	\$-

3. Financial Risk Management (continued)

2011 NZ\$000s	Carrying Amount	CONSOLIDATED		Carrying Amount	PARENT COMPANY	
		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 NZD		<u>(\$38)</u>	<u>\$38</u>		<u>(\$38)</u>	<u>\$38</u>
SGD cash	183	18	(18)	15	2	(2)
SGD accounts receivable	102	10	(10)	-	-	-
SGD accounts payable	(390)	(39)	39	-	-	-
Total SGD		<u>(\$11)</u>	<u>\$11</u>		<u>\$2</u>	<u>(\$2)</u>
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 EUR		<u>\$33</u>	<u>(\$33)</u>		<u>\$37</u>	<u>(\$37)</u>
YTL cash	460	46	(46)	-	-	-
YTL accounts payable	(24)	(2)	2	-	-	-
Total YTL		<u>\$44</u>	<u>(\$44)</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 Group had cash deposits in various currencies at balance sheet date as follows:

CONSOLIDATED \$000s	2012		2011	
	Local Currency Amounts	NZD Equivalent	Local Currency Amounts	NZD Equivalent
NZD	365	365	182	182
EUR	90	144	132	221
USD	677	825	2,103	2,726
AUD	-	1	-	-
SGD	309	308	183	183
GBP	18	35	1	1
YTL	281	191	460	315
Total		<u>\$1,869</u>		<u>\$3,628</u>

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

PARENT COMPANY \$000s	2012		2011	
	Local Currency Amounts	NZD Equivalent	Local Currency Amounts	NZD Equivalent
NZD	365	365	182	182
EUR	64	103	127	214
USD	263	320	1,776	2,303
AUD	-	1	-	-
SGD	1	1	15	15
GBP	2	3	1	1
Total		<u>\$793</u>		<u>\$2,715</u>

3. Financial Risk Management (continued)

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 consolidated pre-tax profit and equity of \$19,000 (December 2011 - \$36,000). The impact of a 1% increase/decrease in interest rates on the bank finance facility has an immaterial impact on the Parent and Group.

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

(b) Credit Risk

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. 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.

Cash and cash equivalents of the Company and Group are deposited with a number of trading banks in New Zealand and overseas. \$720,000 is deposited with a major NZ trading bank, \$349,000 with a major Singapore trading bank and \$72,000 with Western Union. \$654,000 is deposited with a Turkish bank with a Standard and Poors long term FC Counterparty Rating of BB. Of the remaining balance, \$72,000 is held across a number of territories and non-performance of obligations by the relevant banks is not expected due to the credit rating of the counter parties considered.

(c) Liquidity Risk

The Company and Group maintains regular forecasts of liquidity based on expected cash flows. The table below analyses the Company's and Group'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	2012			2011		
	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	6,954	-	-	10,125	-	-
Bank finance facilities	1,233	-	-	1,192	-	-
Finance lease liability	4	-	-	33	32	9
	\$8,191	\$-	\$-	\$11,350	\$32	\$9

PARENT COMPANY \$000s	2012			2011		
	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	6,396	-	-	7,674	-	-
Bank finance facilities	1,228	-	-	1,189	-	-
Finance lease liability	4	-	-	33	32	9
	\$7,628	\$-	\$-	\$8,896	\$32	\$9

3. Financial Risk Management (continued)

The table below analyses derivative financial instruments that are settled net and all gross settled derivatives into their relevant maturity groupings based on the remaining period at balance date to the contracted maturity date. The amounts disclosed are the contracted undiscounted cash flows.

CONSOLIDATED & PARENT COMPANY \$000s	Liability carrying amount	Asset carrying amount	Contracted cash flows	Less than 6 months	6 to 12 months	More than 12 months
2012						
Forward foreign exchange contracts	(2)	-				
- Outflow	-	-	1,072	1,072	-	-
- Inflow	-	-	1,077	1,077	-	-
	Liability carrying amount	Asset carrying amount	Contracted cash flows	Less than 6 months	6 to 12 months	More than 12 months
2011						
Forward foreign exchange contracts	-	56				
- Outflow	-	-	714	714	-	-
- Inflow	-	-	771	771	-	-

(d) Capital Risk Management

The Company's objectives when managing capital is 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 approximates their fair value. Derivatives are carried at fair value. Receivables and payables are short term in nature and therefore approximate to their fair value.

Interest bearing bank deposits and bank finance facilities re-price between every 1 to 90 days and are therefore approximate to their fair value.

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

4. FINANCIAL INSTRUMENTS BY CATEGORY

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
Assets per Statements of Financial Position	\$000s	\$000s	\$000s	\$000s
Loans and Receivables				
Trade and other receivables	8,519	8,104	2,123	5,526
Cash and cash equivalents	1,869	3,628	793	2,715
Advances to subsidiaries	-	-	8,505	6,636
	\$10,388	\$11,732	\$11,421	\$14,877
Liabilities per Statements of Financial Position				
Amortised cost				
Trade and other payables	6,954	10,125	6,396	7,674
Bank finance facility	1,233	1,192	1,228	1,189
Finance lease liability	4	74	4	74
	\$8,191	\$11,391	\$7,628	\$8,937

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- \$1,481,000 (2011 - \$2,760,000)

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

(iii) Warranty Provision - \$529,000 (2011 - \$1,148,000)

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 (refer to note 21).

(iv) Development Costs- \$314,000 (2011 - \$1,428,000)

Development costs are capitalised once it can be demonstrated that the asset is supported by future economic benefits (refer note 2(i)). These projects are assessed for impairment annually in accordance with the accounting policies (refer note 2(o)) which require estimates of future cash flows. An impairment charge arose during 2012 of \$950,000 following the decision not to proceed with certain projects, representing the write off of costs previously capitalised (refer note 17).

6. SEGMENT INFORMATION

(a) Reportable segments

At 31 December 2012, 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 Group 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 Group's revenue is generated mainly from the supply or manufacture of electric motors by the Company.

Revenue by Geographic Areas	CONSOLIDATED	
	2012 \$000s	2011 \$000s
New Zealand	121	42
Americas	19,159	16,407
Asia/Pacific –other	3,590	2,356
Europe	12,692	16,180
Total	\$35,562	\$34,985

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

Total Non-Current Assets	CONSOLIDATED	
	2012 \$000s	2011 \$000s
New Zealand	1,701	3,383
America	11	54
Asia/Pacific –other	45	341
Europe	16	19
Total	\$1,773	\$3,797

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

Major Customers

Two major customers (each representing 10% or more of revenues), each account for revenues of \$8,871,000, and \$4,845,000 of total revenues (2011: two customers each with revenues of \$8,766,000 and \$3,791,000).

7. REVENUE

	CONSOLIDATED		PARENT COMPANY	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Product revenue	35,481	34,720	34,377	33,187
Services revenue	81	307	18	307
Royalties & licensing	-	(42)	-	(42)
	\$35,562	\$34,985	\$34,395	\$33,452

8. OTHER INCOME

	CONSOLIDATED		PARENT COMPANY	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Net foreign exchange gains	350	-	168	45
Other income	143	155	146	149
	\$493	\$155	\$314	\$194

9. EXPENSES

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Loss before income tax includes the following specific expenses:				
Depreciation (note 16)				
Plant and equipment	383	665	239	390
Office equipment, furniture & fittings	151	236	94	128
	\$534	\$901	\$333	\$518
Employee benefits				
Wages and salaries	4,279	6,078	2,845	3,617
Sick leave	29	83	29	83
Holiday pay	250	275	249	260
Employee share options expense	118	187	118	187
Other short term employee related costs	643	574	438	248
	\$5,319	\$7,197	\$3,679	\$4,395
Auditor's remuneration (PricewaterhouseCoopers)				
Audit services: Group	95	100	95	100
Audit services: Subsidiaries	18	16	-	-
Audit related services	20	21	20	21
Tax compliance & advice	-	6	-	6
	\$133	\$143	\$115	\$127
Restructuring costs				
Onerous leases	322	233	194	94
Onerous supply contracts	(119)	837	76	-
Redundancy costs	-	680	-	383
	\$203	\$1,750	\$270	\$477
Amortisation of intangible assets (note 17)	391	647	388	638
Impairment of property plant & equipment (note 16)	150	200	150	-
Impairment of intangibles (note 17)	1,074	752	1,074	752
Finance costs				
Interest expense	51	88	49	76
Doubtful debts expense	241	91	51	44
Rental expense relating to operating leases	1,018	1,299	478	570
Net foreign exchange losses	-	551	-	-
Development costs expensed	183	400	187	348
Inventory (recovery)/write downs (note 15)	(405)	2,577	118	340
Increase / (decrease) in impairment of subsidiary company advances	-	-	960	(2,063)
Increase / (decrease) in impairment of subsidiary company investments	-	-	(81)	7,195

10. INCOME TAX EXPENSE

(a) Income tax expense

The taxation charge relates to an overseas subsidiary. No other taxation is payable (Dec 2011 - \$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	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Reported loss for period before tax	(6,319)	(14,472)	(7,270)	(12,885)
Less non-deductible expenses	131	271	1,010	5,403
Less unrecognised timing differences	772	3,577	2,128	1,029
Net loss for tax purposes	(5,416)	(10,624)	(4,132)	(6,453)
Losses carried forward from prior years	(78,536)	(69,954)	(64,382)	(57,929)
Adjustment of prior periods	(964)	-	(2,132)	-
Expired losses	396	1,785	-	-
Exchange adjustments	67	257	-	-
Losses available to carry forward to future years	(\$84,453)	(\$78,536)	(\$70,646)	(\$64,382)

Of the total consolidated losses available to carry forward to future years. \$2,887,000 (2011 - \$4,511,000) arises in the U.S.A. and is 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 2012 year U.S.A. Federal tax losses of US\$305,000 expired (2011 - US\$1,378,000).

(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 (2011 - \$nil) and no movements occurred in the Imputation Credit Account (2011 - \$nil).

12. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Cash on hand and at bank	469	1,134	88	283
Call deposits	1,323	2,417	628	2,355
Short term bank deposits 3 to 12 months	77	77	77	77
Cash and cash equivalents in cash the Cash Flow Statement	\$1,869	\$3,628	\$793	\$2,715

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

13. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Net trade receivables				
Trade receivables	7,871	6,758	1,845	4,919
Provision for doubtful debts	(329)	(172)	(91)	(125)
	7,542	6,586	1,754	4,794
Receivable from subsidiaries (note 29)	-	-	-	342
Prepayments	329	401	300	325
VAT/GST refunds due	473	948	46	49
Other receivables	175	169	23	16
	\$8,519	\$8,104	\$2,123	\$5,526

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 \$1,072,000 were past due but not considered impaired (2011 - \$882,000). Of this amount \$304,000 (2011: \$134,000) was 3 months or more overdue.

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.

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Provision for doubtful debts beginning of year	172	401	125	390
Increase in provision	241	91	51	44
Bad debts written off	(79)	(278)	(79)	(271)
Exchange adjustment	(5)	(42)	(6)	(38)
Provision for doubtful debts end of year	\$329	\$172	\$91	\$125

The movement in the provision for doubtful debts is recognised within 'Operating expenses' in the Statements of Comprehensive Income.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED & PARENT			
	Carrying Amount		Notional Contract Value	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Forward foreign exchange contracts Buy USD/Sell EUR	(\$2)	\$56	\$1,076	\$714

Some 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	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Finished goods – at cost	3,335	6,772	946	3,897
Work in progress – at cost	1,681	2,844	1,289	1,585
Raw materials – at cost	991	4,088	587	330
Less inventory provisions	(1,481)	(2,760)	(259)	(472)
Total inventories	\$4,526	\$10,944	\$2,563	\$5,340

Certain inventories are subject to retention of title clauses.

	CONSOLIDATED		PARENT COMPANY	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Inventory provision at commencement of year	(2,760)	(1,030)	(472)	(144)
Inventory scrapped	1,209	708	201	50
Recognised in the Income Statement	405	(2,577)	(118)	(340)
Exchange adjustments	(335)	139	130	(38)
Inventory provision at end of year	(\$1,481)	(\$2,760)	(\$259)	(\$472)

The reversal of inventory provision in 2012 is attributable to the recovery of the inventory value as a result of sale and or use in manufacture.

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 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	3,933	1,519	5,452
Accumulated depreciation and impairments	(4,291)	(1,720)	(6,011)	(3,164)	(1,139)	(4,303)
Exchange adjustment	(133)	(108)	(241)	(61)	(27)	(88)
Net book amount	\$947	\$520	\$1,467	\$708	\$353	\$1,061
Year ended 31 December 2012						
Opening net book amount	947	520	1,467	708	353	1,061
Additions	100	37	137	88	28	116
Depreciation	(383)	(151)	(534)	(239)	(94)	(333)
Impairments	(5)	(145)	(150)	-	(150)	(150)
Disposals	(181)	(24)	(205)	(111)	-	(111)
Exchange adjustment	(44)	(86)	(130)	(40)	(19)	(59)
Closing net book amount	\$434	\$151	\$585	\$406	\$118	\$524
At 31 December 2012						
Cost	4,819	2,234	7,053	3,774	1,547	5,321
Accumulated depreciation and impairments	(4,208)	(1,889)	(6,097)	(3,267)	(1,383)	(4,650)
Exchange adjustment	(177)	(194)	(371)	(101)	(46)	(147)
Net book amount	\$434	\$151	\$585	\$406	\$118	\$524

17. INTANGIBLE ASSETS

CONSOLIDATED	Development costs \$000s	Patents \$000s	Software \$000s	Other \$000s	Total \$000s
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
Year ended 31 December 2012					
Opening net book amount	1,428	754	74	74	2,330
Additions	47	321	6	1	375
Amortisation	(208)	(156)	(26)	(1)	(391)
Impairments	(950)	(57)	-	(67)	(1,074)
Exchange adjustment	(3)	(40)	(4)	(5)	(52)
Closing net book amount	\$314	\$822	\$50	\$2	\$1,188
At 31 December 2012					
Cost	4,228	1,878	393	96	6,595
Accumulated amortisation	(3,714)	(974)	(333)	(71)	(5,092)
Exchange adjustment	(200)	(82)	(10)	(23)	(315)
Net book amount	\$314	\$822	\$50	\$2	\$1,188

17. Intangible assets (continued)

PARENT COMPANY	Development costs \$000s	Patents \$000s	Software \$000s	Other \$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
Year ended 31 December 2012					
Opening net book amount	1,428	754	67	72	2,321
Additions	47	321	-	-	368
Amortisation	(208)	(156)	(24)	-	(388)
Impairments	(950)	(57)	-	(67)	(1,074)
Exchange adjustment	(3)	(40)	(4)	(3)	(50)
Closing net book amount	\$314	\$822	\$39	\$2	\$1,177
At 31 December 2012					
Cost	4,228	1,878	379	10	6,495
Accumulated amortisation	(3,714)	(974)	(330)	-	(5,018)
Exchange adjustment	(200)	(82)	(10)	(8)	(300)
Net book amount	\$314	\$822	\$39	\$2	\$1,177

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.

Following a review of Wellington's product road-map and current customer and market buying trends, the decision was made to cancel and wind-up some development programs. This has allowed the company to re-focus development activities on R&D programs that deliver higher margin potential through closer alignment to changing or emerging customer needs. This decision has resulted in impairment losses of \$1,074,000 being recognised in the year ended 31 December 2012 (2011 – \$752,000) for the Parent and Group.

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	2012	2011
Wellington Drive Sales Ltd (formerly AirMoVent Ltd)	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%
Wellington Latinoamerica SA de CV	Mexico	Ordinary	100%	-

All subsidiaries have a common balance date of 31 December.

Wellington Latinoamerica SA de CV was incorporated in November 2012.

19. TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Trade payables	6,002	9,196	5,704	6,980
Intercompany payables— refer note 30(d)	-	-	-	123
Related party payables – refer note 30(d)	388	212	379	195
Accrued expenses	26	244	128	82
Employee expenses	538	473	185	294
	\$6,954	\$10,125	\$6,396	\$7,674

20. BANK FINANCE FACILITIES

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Bank finance facilities (secured)	\$1,233	\$1,192	\$1,228	\$1,189

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.

21. PROVISIONS

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Restructuring provisions	479	1,510	270	437
Warranty provisions	529	1,148	529	1,148
	\$1,008	\$2,658	\$799	\$1,585

(a) Restructuring provisions

Carrying amount at start of year	1,510	-	437	-
Additional provisions recognised	398	1,750	270	477
Amounts used	(1,273)	(240)	(438)	(40)
Unused amounts reversed	(195)	-	-	-
Exchange adjustment	39	-	1	-
	\$479	\$1,510	\$270	\$437

In August 2011, the Company announced a plan to restructure its operations. Further restructuring initiatives resulted from the review of the business undertaken since the appointment of the new CEO. As a result 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.

(b) Warranty provisions

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Carrying amount at start of year	1,148	445	1,148	445
Additional provisions recognised	597	1,498	597	1,485
Amounts used	(351)	(149)	(351)	(136)
Unused amounts reversed	(784)	(688)	(784)	(688)
Exchange adjustment	(81)	42	(81)	42
Carrying amount at end of year	\$529	\$1,148	\$529	\$1,148

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.

22. FINANCE LEASE LIABILITIES

Commitments in relation to finance leases are payable as follows:

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Within one year	5	68	5	68
Later than one year but not later than five years	-	10	-	10
Future finance charges	(1)	(4)	(1)	(4)
Recognised as a liability	\$4	\$74	\$4	\$74
Disclosed as:				
Current portion	4	65	4	65
Non-current portion	-	9	-	9
Recognised as a liability	\$4	\$74	\$4	\$74

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 2012 is \$Nil (2011 - \$2,000).

23. DEFERRED TAX

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Unrecognised deferred tax assets				
Doubtful debts	92	48	26	35
Inventory provisions	415	833	73	138
Employee benefits	138	81	138	81
Intangibles	79	438	79	438
Fixed assets	99	-	70	-
Restructuring provisions	320	433	224	122
Tax losses to carry forward	23,647	21,990	19,781	18,027
	24,790	23,823	20,391	18,841
Unrecognised deferred tax liabilities				
Fixed assets	-	(137)	-	(81)
Unrecognised net deferred tax asset	\$24,790	\$23,686	\$20,391	\$18,760

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. CONTRIBUTED EQUITY

CONSOLIDATED & PARENT	2012 Shares	2011 Shares	2012 \$000s	2011 \$000s
Ordinary shares – fully paid	80,766,450	67,366,450	108,495	106,456
Ordinary shares – partly paid	1,959,926	2,195,641	49	63
US employee share options	37,500	37,500	-	-
Total ordinary shares and options on issue	82,763,876	69,599,591	\$108,544	\$106,519

(a) Ordinary shares – fully paid				
Opening balance of ordinary shares on issue	67,366,450	673,663,985	106,456	98,113
Issues of ordinary shares during the year:				
• February 2011 rights issue at 1.25 cents for cash	-	673,663,985	-	8,420
• February 2011 share issue costs	-	-	-	(77)
• October 2012 issue at 15.5 cents for cash	13,400,000	-	2,077	-
• October 2012 share issue costs	-	-	(38)	-
• June 2011 20 to 1 share consolidation	-	(1,279,961,520)	-	-
Ordinary fully paid shares on issue at year end	80,766,450	67,366,450	\$108,495	\$106,456

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	2,195,641	17,250,000	63	86
June 2011 20 to 1 share consolidation	-	(16,387,500)	-	-
Issues of partly paid shares during the year:				
• 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	(235,715)	(316,266)	(14)	(31)
Surrendered	-	-	-	-
Ordinary part paid shares on issue at year end	1,959,926	2,195,641	\$49	\$63

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 2012 (numbers)	Outstanding at 2011 (numbers)
10 Aug 2010	10 Aug 2013	10 Aug 2015	¹ 163.35	¹ 163.35	¹ 163.35	537,597	723,312
21 Jul 2011	21 Jul 2014	21 Jul 2016	32.74	32.74	32.24	75,000	125,000
6 Dec 2011	6 Dec 2013	6 Dec 2016	25.56	25.56	25.06	1,347,329	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

24. Contributed Equity (continued)

can settle the unpaid balance of their part-paid shares and transfer the shares to their name or the name of their nominated trustee.

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.

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

	2012 Share Options	2011 Share Options
Options outstanding at start of period	37,500	750,000
June 2011 20 to 1 share consolidation	-	(712,500)
Outstanding at end of period	37,500	37,500

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 2012 (numbers)	Outstanding at 2011 (numbers)
10 Aug 10	10 Aug 14	^{1.} 247	37,500	37,500
			37,500	37,500

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.} 247 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.

25. ACCUMULATED LOSSES

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Opening balance	(92,671)	(78,551)	(91,750)	(79,217)
Loss for the year	(6,333)	(14,472)	(7,270)	(12,885)
Surrendered & lapsed employee share option scheme benefits	-	352	-	352
Accumulated losses at end of year	(\$99,004)	(\$92,671)	(\$99,020)	(\$91,750)

26. OTHER RESERVES

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Share option compensation reserve	258	140	258	140
Currency translation reserve	(2,310)	(1,564)	(2,443)	(1,832)
Hedging reserve	(2)	56	(2)	56
	(\$2,054)	(\$1,368)	(\$2,187)	(\$1,636)

(a) Share Option Compensation Reserve

Share based compensation recognised at start of year	140	305	140	305
Net compensation expensed	118	187	118	187
Surrendered & lapsed share option scheme transferred to accumulated losses	-	(352)	-	(352)
	\$258	\$140	\$258	\$140

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	(1,564)	(1,701)	(1,832)	(1,607)
Movements for the year	(746)	137	(611)	(225)
	(\$2,310)	(\$1,564)	(\$2,443)	(\$1,832)

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

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

(c) Hedging Reserve

Opening balance	56	16	56	16
Cash flow hedge fair value gains/(losses) for the year	(58)	40	(58)	40
Tax on fair value (losses)/gains	-	-	-	-
	(\$2)	\$56	(\$2)	\$56

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 (2011 - \$nil).

28. COMMITMENTS

(a) Capital commitments

There were no material capital commitments at 31 December 2012 (2011 - \$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	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Within one year	817	1,138	562	571
Later than one year but not later than five years	186	924	140	702
Later than five years	-	-	-	-
	\$1,003	\$2,062	\$702	\$1,273

29. RELATED PARTY TRANSACTIONS

(a) Directors

The names of persons who are directors of the Company are on page 11.

(b) Key management personnel and compensation

Key management personnel compensation for the years ended 31 December 2011 and 2012 is set out below. The key management personnel comprises of the Directors including the Chief Executive Officer (CEO) and all the senior executives who report directly to the CEO.

	CONSOLIDATED		PARENT COMPANY	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Salaries, fees and other short term benefits	1,566	1,352	1,017	1,014
Share based remuneration	89	128	89	128
Directors' remuneration	162	345	162	345
Restructuring termination benefits	-	329	-	329
Bonuses	288	52	288	44
Total	\$2,105	\$2,206	\$1,556	\$1,860

Directors' remuneration in 2011 included remuneration of the former CEO to the date of his resignation as a director.

The Individual Employment Contract between the Company and the Chief Executive Officer, Mr Greg Allen provides that 1% of the then listed share capital of the Company shall be issued as part paid shares (in accordance with the Partly Paid Share Scheme refer note 24(b)) for each of the financial years 2013, 2014 and 2015, subject to agreed performance hurdles.

(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.

29. Related Party Transactions (continued)

The main transactions between the Parent and its subsidiaries involve:

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

The following transactions occurred with related parties during the year:

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Revenue – subsidiaries	-	-	9,885	7,768
Purchases – subsidiaries	-	-	11,084	13,181
Other expenses – subsidiaries	-	-	867	1,560
Loans to related parties – subsidiaries	-	-	(2,223)	(5,106)
Increase / (decrease) in provisions – loans to subsidiaries	-	-	960	(2,063)
Increase/ (decrease) in provisions – investment in subsidiaries	-	-	(81)	7,195

Further details of transactions with directors can be found on pages 16 & 17.

Details of directors' shareholdings and movements therein can be found on pages 16 & 17.

(d) Outstanding balances

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

	CONSOLIDATED		PARENT COMPANY	
	2012	2011	2012	2011
	\$000s	\$000s	\$000s	\$000s
Receivables from subsidiaries	-	-	-	342
Loans to subsidiaries	-	-	19,057	16,834
Provisions made in respect of loans to subsidiaries	-	-	(10,552)	(10,198)
Payables to key management personnel	388	212	379	195
Restructuring redundancy provisions	-	328	-	328
Payables to subsidiaries	-	-	-	(123)

(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.

	2012	2011
Loss attributable to equity holders of the Company	(6,333,000)	(14,472,000)
Weighted average number of ordinary shares in issue (thousands)	70,588	66,734
Basic earnings per share	(8.97 cents)	(21.68 cents)

30. Earnings Per Share (continued)

(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.

	2012	2011
Loss attributable to equity holders of the Company	(6,333,000)	(14,472,000)
Weighted average number of ordinary shares in issue (thousands)	70,588	66,734
Adjustment for partly paid shares or share options	-	-
Weighted average number of ordinary shares for diluted earnings per share (thousands)	70,588	66,734
Diluted earnings per share	(8.97 cents)	(21.68 cents)

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

	CONSOLIDATED		PARENT COMPANY	
	2012 \$000s	2011 \$000s	2012 \$000s	2011 \$000s
Loss after taxation for the period	(6,333)	(14,472)	(7,270)	(12,885)
Adjustments for:				
Depreciation and amortisation	925	1,548	721	1,156
Impairment of property, plant, equipment & intangibles	1,224	952	1,224	752
Share based payments	118	187	118	187
Inventory provision movement	(1,279)	1,730	(213)	327
Provision for doubtful debts movement	157	(229)	(34)	(265)
Impairment of subsidiary company advances	-	-	960	(2,063)
Impairment of investments in subsidiaries	-	-	(81)	7,195
Provision for warranty movement (note 21)	(619)	703	(619)	703
Provision for restructuring movement (note 21)	(1,031)	1,510	(167)	437
Net foreign exchange differences	(569)	368	(932)	(90)
Intercompany current accounts reclassified to advances to subsidiaries	-	-	-	(758)
Decrease/(increase) in trade and other receivables	(572)	1,572	3,437	1,126
Decrease / (increase) in inventories	7,697	1,572	2,990	(558)
Decrease in trade and other payables	(3,171)	(1,959)	(1,278)	(431)
Net cash outflow from operating activities	(\$3,453)	(\$6,518)	(\$1,144)	(\$5,167)

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*

Howard Milliner, *Group Financial Controller*

Ali Karahasano lu, *Sales Director, Europe/Eurasia*

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

Gabriel Villalobos, *Director of Finance Administration &
Operations, Americas*

Gerardo Gonzalez, *VP Intelligent Systems Business
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