Wellington Drive Technologies Limited

Independent Adviser's Report and Appraisal Report

In Respect of the Proposed Underwriting Arrangements and Allotment of Fully Paid Ordinary Shares to SuperLife Limited

May 2014

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

Index

Section **Page**

1. Introduction

1.1 Background

Wellington Drive Technologies Limited (**Wellington Drive** or the **Company**) develops, manufactures, markets and sells energy efficient electronic motors, airflow solutions and refrigeration control solutions for the commercial refrigeration markets.

Wellington Drive is listed on the main equities security market (**NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of $16 million as at 22 May 2014 and audited total equity of $9 million as at 31 December 2013.

A profile of the Company is set out in section 4.

1.2 Capital Raising

Wellington Drive announced on 10 March 2014 its intention to undertake a pro rata issue of non-voting mandatory convertible preference shares (**MCPS**) to existing shareholders to raise $5.0 million of additional capital (before costs of approximately $0.3 million) (the **MCPS Issue**) to strengthen the Company's financial position and to fund the Company's regional channel expansion plans, customer growth projects and new product development.

Wellington Drive entered into equity commitment agreements with various institutional shareholders under which they agreed to take up their full MCPS Issue entitlements in exchange for the payment of a 2.5% commitment fee.

The Company's largest shareholder, SuperLife Limited (**SuperLife**), agreed to take up its entitlements in full and also agreed to underwrite any shortfall of subscriptions under the MCPS Issue, subject to shareholder approval (the **Underwriting Arrangements**). A profile of SuperLife is set out in section 1.3.

Overview of the MCPS Issue

The MCPS Issue closed on 15 May 2014, raising $2.2 million through the issue of 11,089,519 MCPS.

The full terms of the MCPS Issue are set out in the MCPS Offer Document dated 9 April 2014. The principal terms of the MCPS Issue are:

- the rights to subscribe for 1 MCPS for every 5 ordinary shares held as at 23 April 2014 (the **Record Date**), resulting in the potential issue of up to 25,211,740 MCPS (subject to rounding)
- shareholders on the Record Date were entitled to the rights at no cost
- the closing date for applying for the MCPS was 15 May 2014 and the MCPS were allotted on 19 May 2014
- the MCPS were issued at $0.20 each, payable in full in cash
- the MCPS have a term of 3 years and will mandatorily convert into fully paid ordinary shares on 19 May 2017 (the **Conversion Date**)
- the MCPS carry a coupon of 5.0% per annum, payable on a 6 monthly basis, in arrears

- the MCPS rank in priority to ordinary shares in the event of the liquidation of the Company
- the MCPS carry no voting rights
- at the end of the 3 year term, the MCPS will convert to fully paid ordinary shares on the following basis:
  - if the Company's volume weighted average share price (**VWAP**) for the 20 business days immediately prior to the Conversion Date is greater than $0.24, the conversion will be one for one
  - if the Company's 20 day VWAP immediately prior to the Conversion Date is less than or equal to $0.24, then the conversion ratio for each MCPS will be [$0.20 / (0.80 x the then share price)] to one MCPS (the **Conversion Ratio**)
- subject to shareholder approval, the MCPS Issue is being underwritten by SuperLife.

The MCPS are listed on the NZX Main Board.

Overview of the Underwriting Arrangements

The principal terms of the Underwriting Arrangements between Wellington Drive and SuperLife, as documented in the Underwriting Agreement between Wellington Drive and SuperLife dated 7 March 2014 (the **Underwriting Agreement**), are:

- SuperLife will take up its full entitlements under the MCPS Issue
- SuperLife will fully underwrite the MCPS Issue
- SuperLife will be paid an underwriting fee of $131,906, representing 2.6% of the $5.0 million of capital to be raised by the MCPS Issue
- SuperLife may appoint sub-underwriters
- the Underwriting Arrangements are conditional on shareholder approval of Underwriting Arrangements.

SuperLife has entered into a sub-underwriting agreement with Meta Capital Limited (**Meta**), whereby Meta has agreed to sub-underwrite $0.1 million (500,000 MCPS) of any shortfall in the MCPS Issue (the **Meta Sub-underwrite**).

1.3 SuperLife Limited

SuperLife is a specialist financial service solution provider. It provides superannuation, KiwiSaver, investment and insurance solutions to over 45,000 members and has over $1 billion of assets. SuperLife has been in the superannuation business for over 14 years and has over 50 staff. Its main office is located in Auckland.

SuperLife is owned by Aventine Group Limited (**Aventine**). Aventine also provides superannuation, investment and actuarial consulting services and record keeping services.

SuperLife's directors are Michael Chamberlain and Owen Nash. Aventine is jointly owned by Ballynagarrick Investments Limited (**Ballynagarrick**) and Naawo Investments Limited (**Naawo**). Ballynagarrick's shareholders and directors are Marian Chamberlain and Michael Chamberlain. Naawo's shareholders and directors are Elizabeth Nash and Owen Nash.

Mr Chamberlain is a director of both SuperLife and Ballynagarrick and has delegated authority to approve transactions in respect of both companies' shareholdings in Wellington Drive.

SuperLife currently holds 25,016,694 fully paid ordinary shares in Wellington Drive, representing:

- 19.85% of the Company's fully paid ordinary shares on issue
- 19.83% of the voting rights in the Company (taking into account the voting rights attached to the partly paid ordinary shares (**PPSs**) on issue).

The shares are held by 2 companies associated with SuperLife:

- SuperLife Trustee Nominees Limited (**SuperLife Trustee**)
- Ballynagarrick.

We refer to SuperLife, SuperLife Trustee and Ballynagarrick collectively as the **SuperLife Associates**.

The 25,016,694 fully paid ordinary shares were acquired by the SuperLife Associates over the past 2 years:

- Ballynagarrick acquired 309,003 fully paid ordinary shares in the Company in September 2012
- SuperLife entered into a subscription agreement with Wellington Drive on 27 September 2012 to subscribe for 13,400,000 fully paid ordinary shares at an issue price of $0.155 per share. The shares were issued to SuperLife Trustee
- SuperLife Trustee was issued a further 11,076,923 ordinary shares at an issue price of $0.13 per share on 14 March 2013 as part of the Company's capital raising program to raise $4.0 million (the **2013 Capital Raising**)
- SuperLife and Ballynagarrick each subscribed for their maximum entitlement of $15,000 (115,384 shares) under the share purchase plan that the Company implemented in April 2013 (the **2013 SPP**).

1.4 Impact on Shareholding Levels

Current Levels

The Company's shareholders not associated with SuperLife (the **Non-associated Shareholders**) currently collectively hold:

- 80.15% of the Company's ordinary shares on issue
- 80.17% of the voting rights in the Company.

At the close of the MCPS Issue on 15 May 2014, 11,089,519 MCPS were subscribed for:

- the SuperLife Associates subscribed for their full entitlement of 5,003,338 MCPS
- the Non-associated Shareholders subscribed for 6,086,181 MCPS.

Accordingly, there is a shortfall of 14,122,221 MCPS:

- SuperLife is required to subscribe for a further 13,622,221 MCPS under the Underwriting Arrangements, at a total cost of $2.7 million
- Meta will subscribe for 500,000 MCPS under the Meta Sub-underwrite at a cost of $0.1 million.

Potential Levels After the MCPS Conversion

The minimum and maximum levels of voting rights held by the SuperLife Associates and the Non-associated Shareholders following the MCPS Issue and the conversion of the MCPS to ordinary shares in May 2017 (the **MCPS Conversion**) are set out below, depending upon the number of ordinary shares issued when the MCPS convert in May 2017.

Range of Potential Levels of Voting Rights

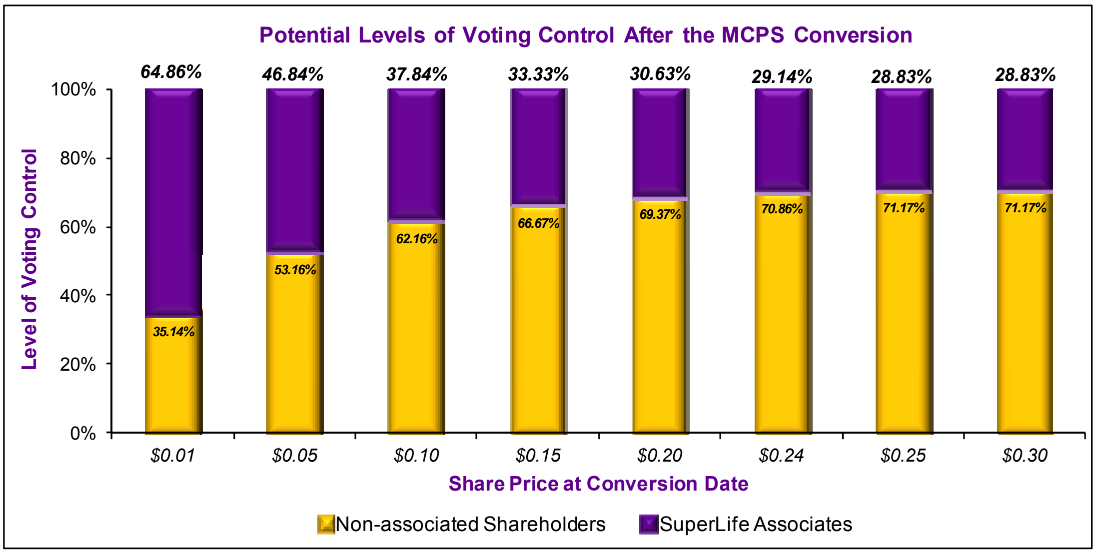
	SuperLife Associates		Non-associated Shareholders		Total
	Voting Rights	%	Voting Rights[1]	%	Voting Rights
Minimum Scenario					
Current	25,021,694	19.83%	101,136,980	80.17%	126,158,674
MCPS Conversion[2]	18,625,559	73.88%	6,586,181	26.12%	25,211,740
Post the MCPS Conversion	43,642,253	28.83%	107,728,161	71.17%	151,370,414
Maximum Scenario					
Current	25,021,694	19.83%	101,136,980	80.17%	126,158,674
MCPS Conversion[3]	465,638,975	73.88%	164,654,525	26.12%	630,293,500
Post the MCPS Conversion	490,655,669	64.86%	265,796,505	35.14%	756,452,174

1 Includes the equivalent voting rights of the partly paid shares
2 Share price at Conversion Date > $0.24 / MCPS converted 1:1
3 Share price at Conversion Date = $0.01 / MCPS converted at Conversion Ratio

The SuperLife Associates' level of voting rights will be 28.83% if the Company's 20 day VWAP immediately prior to the Conversion Date is above $0.24 and therefore the MCPS are converted on a one-for-one basis (the **Minimum Scenario**).

The SuperLife Associates' level of voting rights will vary significantly if the Company's 20 day VWAP immediately prior to the Conversion Date is less than or equal to $0.24 and therefore the MCPS are converted at the Conversion Ratio.

The graph that follows shows the potential levels of voting rights that the SuperLife Associates will hold, depending on the Company's share price at the Conversion Date.



The theoretical maximum level of voting rights that the SuperLife Associates will hold is 64.86%, based on a share price of $0.01 as at the Conversion Date (the **Maximum Scenario**). Given that the Company's shares have not traded below $0.12 in the past 2 and a half years, we consider the likelihood of the Maximum Scenario occurring to be negligible.

If the Company's 20 day VWAP immediately prior to the Conversion Date is $0.13 (ie equivalent to the closing price on 22 May 2014), then the SuperLife Associates will hold 34.83% of the Company's voting rights.

1.5 Annual Meeting

The Non-associated Shareholders will vote on an ordinary resolution in respect of the Underwriting Arrangements and the allotment of ordinary shares to SuperLife upon conversion of the MCPS (the **SuperLife MCPS Conversion**) at the Company's annual meeting on 16 June 2014 (resolution 3 – the **SuperLife Resolution**).

SuperLife and its associates / associated persons are not permitted to vote on the SuperLife Resolution.

As part of the business of the annual meeting, shareholders will also vote on ordinary resolutions in respect of:

- the election of Lisbeth Jacobs and Gottfried Pausch and the re-election of Shawn Beck as directors of the Company (resolution 1)
- the authorisation of the Board to fix the auditors' fees for the ensuing year (resolution 2).

1.6 Regulatory Requirements

Takeovers Code

Rule 6 of the Takeovers Code (the **Code**) prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Underwriting Arrangements may result in the SuperLife Associates increasing their control of the voting rights in Wellington Drive from 19.83% to between 28.83% and 64.86% (depending on the number of ordinary shares issued when the MCPS are converted in May 2017).

Accordingly, the Non-associated Shareholders will vote at the Company's annual meeting on an ordinary resolution in respect of the Underwriting Arrangements and the SuperLife MCPS Conversion in accordance with the Code.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

NZX Main Board Listing Rules

Listing Rule 7.3.1 of the NZX Main Board Listing Rules (the **Listing Rules**) states that no Issuer shall issue any Equity Securities unless the precise terms and conditions of the specific proposal to issue those Equity Securities have been approved by separate resolutions (passed by a simple majority of votes) of holders of each Class of Quoted Equity Securities of the Issuer whose rights or entitlements could be affected by that issue.

Listing Rule 7.5 states that no issue of Securities shall be made by an Issuer if:

- there is a significant likelihood that the issue will result in any person or group of Associated Persons materially increasing their ability to exercise, or direct the exercise of effective control of that Issuer and
- that person or group of Associated Persons is entitled before the issue to exercise not less than 1% of the total votes attaching to the Securities of the Issuer

unless the precise terms and conditions of the issue have been approved by an ordinary resolution of the Issuer.

The SuperLife Associates currently hold 19.85% of the Company's fully paid ordinary shares and 19.83% of the voting rights in the Company. The Underwriting Arrangements and the SuperLife MCPS Conversion involve the issue of equity securities which may materially increase the SuperLife Associates' ability to exercise, or direct the exercise of effective control of the Company.

Listing Rule 9.2.1 stipulates that an Issuer shall not enter into a Material Transaction if a Related Party is a party to the Material Transaction or to one of a related series of transactions of which the Material Transaction forms part without first obtaining approval of the transaction by way of an ordinary resolution from shareholders not associated with the Related Party.

The Underwriting Arrangements and the SuperLife MCPS Conversion are or will be Material Transactions and SuperLife is a Related Party of the Company.

Accordingly, the Non-associated Shareholders will vote at the Company's annual meeting on an ordinary resolution in respect of the Underwriting Arrangements and the SuperLife MCPS Conversion in accordance with the Listing Rules.

Listing Rule 6.2.2 (a) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 7.5.

Listing Rule 9.2.5 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 9.2.1.

1.7 Purpose of the Report

The Company's board of directors (the **Board**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Underwriting Arrangements and the SuperLife MCPS Conversion in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 19 March 2014 to prepare the Independent Adviser's Report.

The Board has engaged Simmons Corporate Finance to prepare an Appraisal Report on the fairness of the Underwriting Arrangements and the SuperLife MCPS Conversion in accordance with Listing Rules 6.2.2 (a) and 9.2.5(b).

Simmons Corporate Finance was approved by NZX Regulation on 21 March 2014 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Independent Adviser's Report and Appraisal Report to the Board for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the SuperLife Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits and fairness of the Underwriting Arrangements and the SuperLife MCPS Conversion in relation to each shareholder. This report on the merits and fairness of the Underwriting Arrangements and the SuperLife MCPS Conversion is therefore necessarily general in nature.

This Independent Adviser's Report and Appraisal Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Underwriting Arrangements and the SuperLife MCPS Conversion

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the Underwriting Arrangements and the allotment of ordinary shares to SuperLife upon conversion of the MCPS having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated May 2014
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the Underwriting Arrangements and the SuperLife MCPS Conversion should focus on:

- the requirement for the MCPS Issue
- the prospects for Wellington Drive without the MCPS Issue
- the structure of the MCPS Issue
- the terms and conditions of the Underwriting Arrangements
- the alternatives to the Underwriting Arrangements
- the impact of the MCPS Issue and the Underwriting Arrangements on Wellington Drive's financial position
- the impact of the Underwriting Arrangements and the SuperLife MCPS Conversion on the control of the Company
- the impact of the Underwriting Arrangements and the SuperLife MCPS Conversion on Wellington Drive's share price
- other benefits and disadvantages to SuperLife of the Underwriting Arrangements and the SuperLife MCPS Conversion
- the benefits and disadvantages for the Non-associated Shareholders of the Underwriting Arrangements and the SuperLife MCPS Conversion
- the implications if the SuperLife Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the Underwriting Arrangements and the SuperLife MCPS Conversion

Our evaluation of the merits of the Underwriting Arrangements and the SuperLife MCPS Conversion is set out in detail in sections 2.3 to 2.14.

In summary, the positive aspects of the Underwriting Arrangements and the SuperLife MCPS Conversion are:

- the rationale for the MCPS Issue and the Underwriting Arrangements is sound
- the structure of the MCPS Issue is reasonable. We assess the value of each MCPS to be in the range of $0.27 to $0.28
- the terms of the Underwriting Arrangements are reasonable
- the Underwriting Arrangements provide Wellington Drive with the certainty that the MCPS Issue will raise $4.7 million (after costs)
- the MCPS Issue and the Underwriting Arrangements will have a positive impact on the Company's financial position
- the Underwriting Arrangements and the SuperLife MCPS Conversion are unlikely to have any material impact on the liquidity of Wellington Drive's ordinary shares in the near term
- the Underwriting Arrangements and the SuperLife MCPS Conversion are unlikely to have any material impact on the attraction of Wellington Drive as a takeover target to bidders other than SuperLife
- the implications of the SuperLife Resolution not being approved by the Non-associated Shareholders are significant in that the Company's ability to fund its strategy in respect of research and development, customer project plans and supply chain cost improvements will be seriously impacted.

In summary, the negative aspects of the Underwriting Arrangements and the SuperLife MCPS Conversion are:

- depending on the Company's share price at the Conversion Date, the SuperLife Associates' level of voting rights will range from 28.83% to 64.86% following the SuperLife MCPS Conversion on 19 May 2017. We consider the likelihood of the higher end of the range occurring to be negligible. Based on the current share price of $0.13, the SuperLife Associates' level of voting rights would be 34.83%. In any event, the Underwriting Arrangements and the SuperLife MCPS Conversion will result in the SuperLife Associates increasing their ability to influence the outcome of shareholding voting and exert shareholder control over the Board and the Company's operations
- the dilutionary impact of the Underwriting Arrangements on the Non-associated Shareholders will result in their current collective interests in the Company reducing by between 11% and 56% following the SuperLife MCPS Conversion
- depending on the level of the SuperLife Associates' shareholding following the SuperLife MCPS Conversion, the attraction of Wellington Drive as a takeover target for SuperLife may diminish.

There are a number of positive and negative features associated with the Underwriting Arrangements and the SuperLife MCPS Conversion. In our view, when the Non-associated Shareholders are evaluating the merits of the transactions, they need to carefully consider whether the negative aspects of the Underwriting Arrangements and the SuperLife MCPS Conversion, including the levels of dilution, justify voting against the Underwriting Arrangements and the SuperLife MCPS Conversion with the outcome that the Company will be undercapitalised and therefore may not be able to fully execute its growth initiatives.

In our opinion, after having regard to all relevant factors, the positive aspects of the Underwriting Arrangements and the SuperLife MCPS Conversion outweigh the negative aspects from the perspective of the Non-associated Shareholders.

2.3 The Requirement for the MCPS Issue

The purpose of the MCPS Issue is to raise funds to enable Wellington Drive to strengthen its financial position and to fund its growth strategy.

If it is fully underwritten, the MCPS Issue will raise $4.7 million of capital for Wellington Drive (after costs). The capital will be used to:

- fund the Company's projected loss in the 2014 financial year (which is expected to be less than $2.7 million)
- support the Company's growth strategy by enabling the business to deliver on its:
  - regional channel expansion plans
  - customer growth projects
  - new product development roadmap.

2.4 The Prospects for Wellington Drive Without the Underwriting Arrangements

The carrying value of Wellington Drive's equity was $9.4 million as at 31 December 2013 and it had $3.0 million of cash and cash equivalents at that date.

At the close of the MCPS Issue on 15 May 2014, 11,089,519 MCPS were issued, raising $2.2 million (before costs):

- the SuperLife Associates subscribed for their full entitlements of 5,003,338 MCPS, raising $1.0 million
- the Non-associated Shareholders subscribed for 6,086,181 MCPS (30.1% of their entitlements), raising $1.2 million.

Accordingly, SuperLife is required to subscribe for a further 13,622,221 MCPS under the Underwriting Arrangements, at a total cost of $2.7 million and Meta is required to subscribe for 500,000 MCPS under the Meta Sub-underwrite at a cost of $0.1 million.

Without the additional $2.8 million of funding from the Underwriting Arrangements, the Company will be able to operate but it will not have as much equity capital as the Board considers prudent in order to execute the Company's strategy in respect of research and development, customer project plans and supply chain cost improvements.

2.5 Structure of the MCPS Issue

The MCPS Issue was structured as an issue of up to 25,211,740 MCPS to existing shareholders on 1:5 basis at $0.20 per MCPS that is underwritten by SuperLife.

Size of the MCPS Issue

The $4.7 million of capital to be raised under the MCPS Issue (after costs) was based on the sum required to fund the projected loss in the 2014 financial year and ensure that there is sufficient equity available to fund the Company's growth strategy.

Pricing

The MCPS were issued at $0.20 each. They represent a Wellington Drive equity security which has the characteristics of both a bond-like security and an embedded option:

- the bond-like component promises the MCPS holders the payment of a coupon of 5.0% per annum, payable on a 6 monthly basis, in arrears
- the embedded option component provides the MCPS holders with the ability to benefit if the share price of Wellington Drive is above $0.25 at the Conversion Date.

Our assessment of the value of the MCPS is set out in section 5. We assess the value of each MCPS to be in the range of $0.27 to $0.28.

In our view, the issue price of $0.20 per MCPS is reasonable. It is lower than our valuation range due to the effect of the Conversion Ratio discussed below.

Conversion Terms

At the end of the 3 year term, the MCPS will convert to fully paid ordinary shares on the following basis:

- if the Company's 20 day VWAP immediately prior to the Conversion Date is greater than $0.24, the conversion will be one for one
- if the Company's 20 day VWAP immediately prior to the Conversion Date is less than or equal to $0.24, then the conversion ratio for each MCPS will be [$0.20 / (0.80 x the then share price)] to one MCPS

The Conversion Ratio is designed to deliver, upon conversion of a MCPS, ordinary share/s with a theoretical total value of $0.25.

The table below demonstrates how the Conversion Ratio would work under different assumed share prices at the Conversion Date.

Examples of Conversion Ratio			
	Conversion Ratio		
Share Price at Conversion Date	Calculation	No. of Shares[1] (000)	Value[1]
$0.30	1:1	1	$0.30
$0.25	1:1	1	$0.25
$0.24	$0.20 / (0.8 x $0.24):1	1.042	$0.25
$0.20	$0.20 / (0.8 x $0.20):1	1.25	$0.25
$0.15	$0.20 / (0.8 x $0.15):1	1.667	$0.25
$0.10	$0.20 / (0.8 x $0.10):1	2.5	$0.25
$0.05	$0.20 / (0.8 x $0.05):1	5	$0.25
$0.01	$0.20 / (0.8 x $0.01):1	25	$0.25

1 Number of ordinary shares x share price at Conversion Date

Set out in section 4.10 is an analysis of Wellington Drive's share price history from 4 January 2012. This shows that the Company's shares have traded between $0.12 and $0.28 over the period at a VWAP of $0.17.

2.6 Underwriting Options

Wellington Drive had the following options regarding the underwriting of the MCPS Issue:

- the Underwriting Arrangements as proposed or
- it could have sought an alternative underwriter or
- it could have undertaken a non-underwritten issue.

Underwriting Arrangements

SuperLife will be paid an underwriting fee of $131,906. The underwriting fee was calculated based on:

- $150,000, being 3.0% of the $5.0 million to be raised by the MCPS Issue
- less $18,094, being the 2.5% commitment fees paid to 3 institutional shareholders who committed to take up their full MCPS Issue entitlements.

The payment of underwriting fees to an underwriter is a normal part of a rights issue. The actual fee percentage varies and generally is a function of the discount of the rights price, the size of the issue and the assessment of the risk that the underwriter is assuming (ie the probability that the underwriter will be called upon to purchase any shortfall in subscriptions). Underwriting fees in New Zealand tend to be in the range of 1.5% to 5.0%. The 3.0% gross underwriting fee is slightly below the midpoint of the range.

The underwriting fee of $131,906 payable to SuperLife is inclusive of the 2.5% commitment fee paid to SuperLife for committing to take up the SuperLife Associates' full MCPS Issue entitlements.

SuperLife has the right to sub-underwrite all or part of its underwriting obligations. In such circumstances, SuperLife will be required to meet the costs of any sub-underwrite fees. The only sub-underwriting arrangements that SuperLife has entered into is the Meta Sub-underwrite in respect of 500,000 MCPS at a fee equivalent to 2.5%.

We consider the Underwriting Arrangements to be reasonable.

Alternative Underwriter

Given the relatively small size of the Company, the limited number of institutional investors on its shareholder register and the limited liquidity of the Company's shares, we consider it unlikely that the underwriting opportunity would hold appeal to potential underwriters other than a party who was prepared to possibly hold a significant shareholding in Wellington Drive.

We are advised that the Board sought to agree the Underwriting Arrangements with SuperLife rather than seeking alternative underwriters on this basis.

No Underwriter

An alternative option to seeking a different underwriter would be for Wellington Drive to have undertaken the MCPS Issue without it being underwritten. In general terms, the greater the discount of the subscription price for the new shares under a rights issue to the current share price, the lower the risk of the rights issue being under subscribed.

A discounted subscription price does not necessarily guarantee the full take-up of a rights issue. Other factors that impact on the likely level of subscription under a rights issue include the demand for the shares (i.e. liquidity and spread of shareholders), the quantum of the required investments (in this case the average required investment was approximately $600 per Non-associated Shareholder (excluding the 10 largest shareholders)) and the general state of the equity markets.

Given that the demand for Wellington Drive shares is relatively low (based on volumes traded) and the MCPS are a new security being issued by the Company for the first time, we are of the view that Wellington Drive would bear considerable risk of not raising the expected level of capital of $4.7 million (after costs) if it did not arrange for the MCPS Issue to be underwritten. This has proven to be the case with the Non-associated Shareholders only taking up 30.1% of their entitlements.

2.7 Impact on Financial Position

A summary of Wellington Drive's recent financial financial position is set out in section 4.8.

Wellington Drive's audited total equity as at 31 December 2013 was $9.4 million. This equated to $0.074 per share.

The MCPS Issue and the Underwriting Arrangements will raise $4.7 million (after costs). For illustrative purposes, if the proceeds from the MCPS Issue were to have been received on 31 December 2013, Wellington Drive's total equity would increase by 50% to $14.0 million and equity per share would increase by 25% to $0.093 per share.

Illustrative Effect of the MCPS Issue on Wellington Drive's Financial Position			
	Equity ($000)	**No. of Shares[1] (000)**	**Equity / Share ($)**
31 December 2013	9,360	126,059	$0.074
MCPS Issue	4,670		
Post the MCPS Issue	14,030		
MCPS Conversion	-	25,211[2]	
Post the MCPS Conversion	14,030	151,270	$0.093

1 Fully paid ordinary shares
2 Assumes the MCPS are converted on a 1:1 basis

2.8 Impact on Control

Share Capital and Shareholders

Wellington Drive currently has 126,058,703 fully paid ordinary shares on issue held by 2,529 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 9 May 2014 are set out in section 4.4.

Wellington Drive currently has 4 substantial security holders:

- the SuperLife Associates – 19.85% of the fully paid ordinary shares
- various entities associated with Hunter Hall Investment Management Limited (**Hunter Hall**) –13.57%
- East West Manufacturing LLC (**East West**) – 8.41%
- Harbour Asset Management Limited (**Harbour**) – 5.88%.

The 4 shareholders collectively hold 47.70% of the fully paid ordinary shares in the Company at present and 47.66% of the voting rights.

SuperLife's Potential Shareholding Levels

Depending on the number of ordinary shares issued when the MCPS convert in May 2017, the Underwriting Arrangements and the SuperLife MCPS Conversion will enable the SuperLife Associates to increase their control of voting rights in Wellington Drive from 19.83% to between 28.83% and 64.86% without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. This is the reason why the Code requires the Non-associated Shareholders to have the opportunity to vote for or against the SuperLife Resolution.

Shareholding Voting

The SuperLife Associates' current level of voting rights of 19.83% does not enable them to pass or block special resolutions (which require the approval of 75% of the votes cast by shareholders) or to pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

Following the SuperLife MCPS Conversion, the SuperLife Associates' ability to influence the outcome of shareholder voting will increase, and the increase may be significant depending on the Company's share price at the Conversion Date. Their increased level of voting rights will be between 28.83% and 64.86%, meaning that they will be able to block a special resolution.

In the event that they control more than 50% of the voting rights, then they will be able to control the outcome of an ordinary resolution. However, even under the Maximum Scenario – which we believe is highly unlikely to arise – their 64.86% level of voting rights would not enable them to pass a special resolution.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the Listing Rules and the Companies Act 1993.

Given the above, we are of the view that the Underwriting Arrangements and the SuperLife MCPS Conversion will increase the SuperLife Associates' ability to exert shareholder control over Wellington Drive, and depending upon the Company's share price at the Conversion Date, the level of increase could be significant.

Ability to Creep

If the SuperLife Associates control 50% or more of the voting rights, then they will be able to utilise the *creep* provisions of Rule 7(e) of the Code.

The *creep* provisions enable entities that hold between 50% and 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares per annum.

Board Control

As set out in section 4.3, the Company currently has 5 directors, none of whom are deemed to be associates of the SuperLife Associates.

We are advised by the Company that at this point in time, no agreements have been made with the SuperLife Associates as to future Board representation following the MCPS Issue and the Underwriting Arrangements.

Operations

We are advised by the Company that the SuperLife Associates currently do not have any influence over the operations of the Company and this is not expected to change following the Underwriting Arrangements and the SuperLife MCPS Conversion.

2.9 Dilutionary Impact

The Underwriting Arrangements and the SuperLife MCPS Conversion will result in the Non-associated Shareholders' current collective shareholdings in the Company being diluted, depending on the Company's share price at the Conversion Date and therefore the number of ordinary shares issued to SuperLife when the MCPS are converted:

- if the SuperLife Associates' level of voting rights increases to 28.83%, then the Non-associated Shareholders' collective interests in the Company will be diluted by 11.2%
- if the SuperLife Associates' level of voting rights increases to 64.86%, then Non-associated Shareholders' collective interests in the Company will be diluted by 56.2%.

2.10 Impact on Share Price and Liquidity

Share Price

A summary of Wellington Drive's daily closing share price and daily volume of shares traded from 4 January 2012 is set out in section 4.10.

Until the MCPS Conversion on 19 May 2017, the MCPS will most likely be viewed (and valued) primarily as a debt security rather than an equity security, albeit one with an embedded option in it.

On this basis, we are of the view that the MCPS will have limited impact on the Company's share price in the near term, other than in respect of the possible dilutionary impact of the MCPS Conversion.

Liquidity

Trading in the Company's shares is relatively thin, reflecting that the SuperLife Associates, Hunter Hall, East West and Harbour collectively hold 47.70% of the fully paid ordinary shares. Only 9.7% of the Company's shares have traded in the past year.

The size of the pool of ordinary shares held by the Non-associated Shareholders will not change under the Underwriting Arrangements until the MCPS Conversion, some 3 years hence.

In our view, the Underwriting Arrangements and the SuperLife MCPS Conversion on their own are unlikely to have a positive or negative effect on the liquidity of Wellington Drive's shares in the near term.

2.11 Key Benefit to the SuperLife Associates

The Underwriting Arrangements provide SuperLife with the opportunity to increase its shareholding (and level of control) in Wellington Drive, potentially to a very significant level. However, this opportunity only arose because some Non-associated Shareholders elected not to take up their entitlements under the MCPS Issue.

2.12 Disadvantages to the SuperLife Associates

Increased Exposure to the Risks of Wellington Drive

The key issues and risks that are likely to impact upon the business operations of Wellington Drive are summarised in section 4.6.

As the SuperLife Associates' ownership in Wellington Drive increases, so does their exposure to these risks. The level of voting rights for the SuperLife Associates will range between 28.83% and 64.86%. The SuperLife Associates have little control over their ultimate level of shareholding in Wellington Drive as it will be a function of the Company's share price at the Conversion Date.

Further Financial Commitments

The current market value of the SuperLife Associates' holding of ordinary shares is $3.3 million as at 22 May 2014. They invested a further $1.0 million to subscribe for their full entitlements under the MCPS Issue.

SuperLife is required to subscribe for 13,622,221 additional MCPS under the Underwriting Arrangements at a cost of $2.7 million. This will increase SuperLife's level of investment in Wellington Drive by 64%.

2.13 Other Issues

All Shareholders had the Opportunity to Participate in the MCPS Issue

The MCPS Issue was a pro rata issue to all shareholders. All Non-associated Shareholders had the opportunity to take up their entitlements to acquire MCPS. If all Non-associated Shareholders had taken up their entitlements, then the SuperLife Associates would not increase their level of voting rights in the Company as a result of the Underwriting Arrangements and the SuperLife MCPS Conversion.

Benefits to Wellington Drive of SuperLife as a Cornerstone Shareholder

The major benefit to Wellington Drive of the Underwriting Arrangements is that the Company is certain to obtain the $4.7 million of funds (after costs) that it requires.

The Underwriting Arrangements and the SuperLife MCPS Conversion will enhance the SuperLife Associates' position as an important cornerstone investor in the Company and further signals their confidence in the future prospects of Wellington Drive.

Non-associated Shareholder Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Underwriting Arrangements and the SuperLife Conversion.

The Underwriting Arrangements and the SuperLife MCPS Conversion will not proceed unless the Non-associated Shareholders approve the SuperLife Resolution.

May Reduce the Likelihood of a Takeover Offer from SuperLife

The Underwriting Arrangements and the SuperLife MCPS Conversion will result in the SuperLife Associates' level of voting rights in the Company increasing from 19.83% to between 28.83% and 64.86%, depending upon the Company's share price at the Conversion Date.

The SuperLife Associates will not be able to increase the level of their shareholding unless they comply with the provisions of the Code. The SuperLife Associates will only be able to acquire more shares in the Company if:

- they make a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders
- the Company undertakes a share buyback that is approved by the Company's shareholders and the SuperLife Associates do not accept the offer of the buyback
- they comply with the *creep* provisions of Rule 7(e) of the Code.

An increase in the SuperLife Associates' shareholding to between 28.83% and 64.86% may reduce the likelihood of a takeover offer for the Company from SuperLife as it may consider that it has sufficient control over the Company.

It is possible that if SuperLife did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already has significant control of the Company and hence does not need to pay a control premium of any significance.

Likelihood of Other Takeover Offers does not Change

In our view, the increase in the SuperLife Associates' level of voting rights from 19.83% to between 28.83% and 64.86% will not have a material impact on the attraction of Wellington Drive as a takeover target to other parties.

Any bidder looking to fully take over the Company would need to ensure that the SuperLife Associates would accept its offer. However, a bidder may be slightly less inclined to make a partial takeover offer for (say) 50.1% of the Company unless it was certain that the SuperLife Associates would accept the offer.

2.14 Implications of the Resolutions not Being Approved

If the SuperLife Resolution is not approved, then SuperLife will not be able to underwrite the MCPS Issue. The MCPS Issue closed with 14,122,221 MCPS not being subscribed for by the Non-associated Shareholders. If SuperLife cannot subscribe for these MCPS under the Underwriting Arrangements, then the Company will not receive $2.8 million of capital. This would have a serious impact on Wellington Drive's ability to execute its strategy in respect of research and development, customer project plans and supply chain cost improvements.

2.15 Voting For or Against the SuperLife Resolution

Voting for or against the SuperLife Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Evaluation of the Fairness of the Underwriting Arrangements and the SuperLife MCPS Conversion

3.1 Basis of Evaluation

Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the proposed issue are *fair* to the Non-associated Shareholders.

There is no legal definition of the term *fair* in New Zealand in either the Listing Rules or in any statute dealing with securities or commercial law.

We are of the view that an assessment of the merits of a transaction is a broader test than the fairness of the transaction and encompasses a wider range of issues associated with the transaction. Our assessment of the merits of the Underwriting Arrangements and the allotment of ordinary shares under the SuperLife MCPS Conversion is set out in section 2 and considers the fairness of the likely increase in effective control by the SuperLife Associates in Wellington Drive as well as the fairness of the terms and conditions of the Underwriting Arrangements.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

3.2 Evaluation of the Fairness of the Underwriting Arrangements and the SuperLife MCPS Conversion for the Purposes of Listing Rule 1.7.2

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the Underwriting Arrangements and the SuperLife MCPS Conversion are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 2.3 to 2.14. In summary, the key factors leading to our opinion are:

- the rationale for the MCPS Issue and the Underwriting Arrangements is sound
- the terms of the MCPS Issue are reasonable
- the terms of the Underwriting Arrangements are reasonable
- the MCPS Issue and the Underwriting Arrangements will have a positive impact on the Company's financial position
- the Underwriting Arrangements will increase the SuperLife Associates' ability to influence the outcome of shareholding voting but only to a moderate degree
- the Underwriting Arrangements are not expected to increase the SuperLife Associates' influence over the Board or the Company's operations
- the Non-associated Shareholders will see their current collective shareholding interests diluted by between 11% and 56% following the Underwriting Arrangements and the SuperLife MCPS Conversion, depending on the Company's share price at the Conversion Date

- the Underwriting Arrangements and the SuperLife MCPS Conversion are unlikely to have any material impact on the Company's share price or the liquidity of its shares in the near term
- the Underwriting Arrangements and the SuperLife MCPS Conversion will likely reduce the attraction of Wellington Drive as a takeover target to the SuperLife Associates but not to other bidders to any significant degree
- the implication of the SuperLife Resolution not being approved by the Non-associated Shareholders is that the Underwriting Arrangements cannot proceed and the Company will not receive the $2.8 million of additional equity from SuperLife and Meta.

3.3 Voting For or Against the SuperLife Resolution

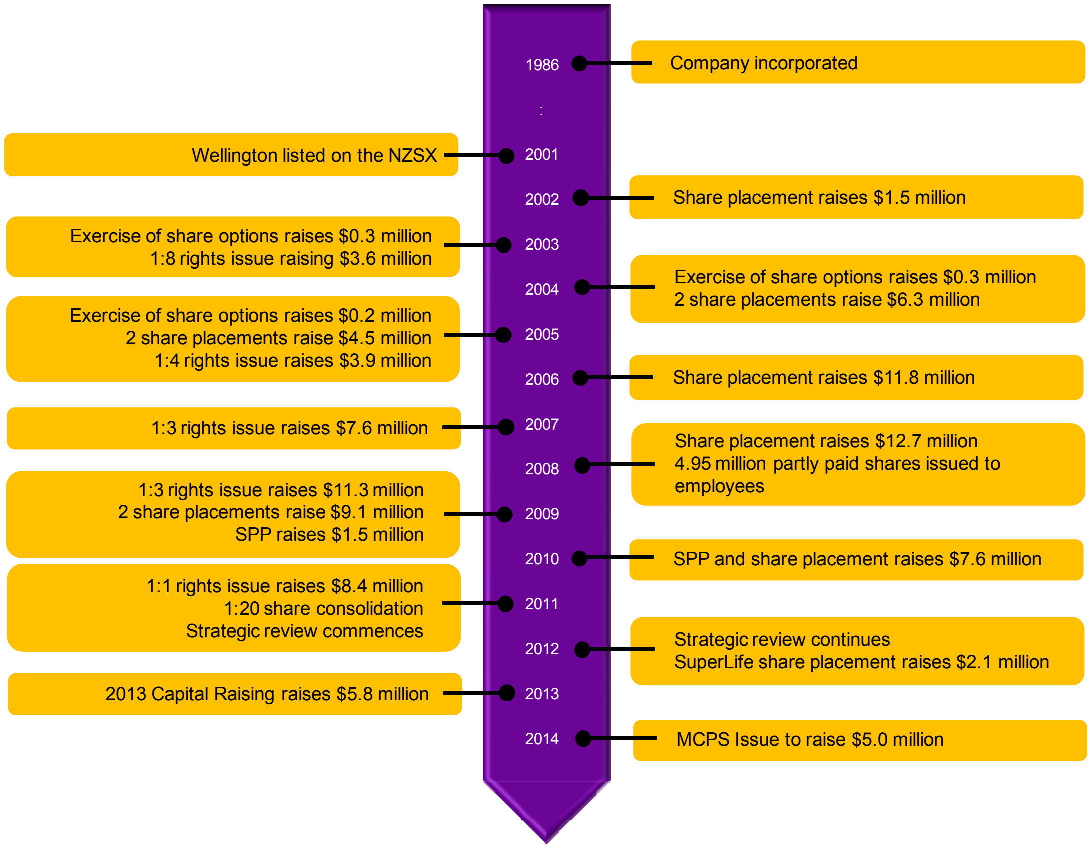
Voting for or against the SuperLife Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

4. Profile of Wellington Drive

4.1 Background

The Company was incorporated on 24 October 1986 as Clark Automotive Development Limited. It changed its name to Cadac Holdings Limited on 28 February 1989, to Cadac Limited on 23 June 1994 and to Wellington Drive Technologies Limited on 30 September 1996.

The Company's key capital market events are set out below.



4.2 Nature of Operations

Wellington Drive focuses on energy saving electronically commutated motors, fans and electronic controllers for refrigerated display cases. The Company's products and solutions use Wellington Drive's proprietary and patented designs which have been developed and refined over the past 20 years to meet the needs of major food and beverage brands and refrigeration manufacturers worldwide.

Wellington Drive is a global organisation with offices in New Zealand, the Americas, Europe and Asia. Its products are in service in 45 countries. The Company has a highly skilled engineering team specialising in electronically commutated motors and electronic controls and refrigeration solutions in its Technology Support Centre in Auckland.

The Company displays its logo on many coolers that contain its products and promotes 3 main product lines:

- - ECR Series of energy efficient condenser and evaporator motors and fans for commercial refrigerators, beverage merchandisers and vending machines
- *AirMoVent* – Shaded Pole Motors industry standard fans and accessories
- *Intelligent Control Solutions* – electronic control solutions for improving the efficiency and functionally of commercial refrigerators.

4.3 Directors and Senior Management

The directors of Wellington Drive are:

- Shawn Beck
- Lisbeth Jacobs
- Simon Mander
- Tony Nowell - Chair
- Gottfried Pausch.

Wellington Drive's senior management team consists of:

- Greg Allen – Chief Executive Officer (**CEO**)
- Steve Hodgson – Senior Vice President, Commercial
- David Howell – Chief Technical Officer
- Howard Milliner – Chief Financial Officer
- Ali Karahasanoglu – Sales Director, Europe / Eurasia
- Erick Layseca-Flores – Business Development Manager, Americas
- Clayton Thomas – Sales and Marketing Director, Asia Pacific
- Gerardo Gonzalez – Vice President, Intelligent Systems Business Unit
- Ron Jackson – Company Secretary.

4.4 Capital Structure and Shareholders

Fully Paid Ordinary Shares

Wellington Drive currently has 126,058,703 fully paid ordinary shares on issue held by 2,529 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 9 May 2014 are set out below.

Wellington Drive's 10 Largest Shareholders		
Shareholder	**No. of Shares Held**	**%**
New Zealand Central Securities Depository Limited (**NZCSD**)	38,316,870	30.40%
SuperLife Trustee	22,272,307	17.67%
East West	10,600,000	8.41%
Investment Custodial Services Limited	5,378,795	4.27%
Michael Daniel, Nigel Burton and Michael Benjamin	2,400,000	1.90%
Raymond Thomson, Tracey Thomson and Alan Fortune	2,378,302	1.89%
Superlife Trustee	2,085,000	1.65%
ASB Nominees Limited	2,055,285	1.63%
Raymond Thomson, Graeme Thomson and Ronald Sasse	1,644,889	1.30%
Flynn No 2 Trustees Limited	1,274,291	1.01%
Subtotal	88,405,739	70.13%
Others (2,519 shareholders)	37,652,964	29.87%
Total	126,058,703	100.00%

Source: NZX Data

NZCSD holds the shares on behalf of a number of shareholders, including Hunter Hall and Harbour.

Partly Paid Ordinary Shares

Wellington Drive currently has 3,790,659 PPSs on issue.

The Partly Paid Share Scheme was established in June 2008 to enable certain employees to acquire shares in the Company. The key terms of the scheme are:

- the issue price is the VWAP over the 10 trading days prior to the issue date plus a margin (generally 20% to 30%)
- the earliest exercise date is either 2 or 3 years after issue
- $0.005 per PPS is required to be paid on issue
- after the earliest exercise date, provided the market price for the Company's shares is at that date equal to or greater than the hurdle price (and on or before 2 years after the earliest exercise date), employees can settle the unpaid balance of their PPSs and transfer the shares to their name or the name of their nominated trustee
- Wellington Drive Technologies Share Scheme Trustee Limited acts as trustee holding the PPSs on behalf of employees
- the PPSs are not quoted on the NZX Main Board
- the PPSs are not tradable.

Greg Allen, the Company's CEO, was issued 1,347,329 PPSs in December 2011 and 807,665 PPSs in April 2013. 7 executives were issued a total of 1,635,665 PPSs in June 2013. The PPSs issued to Mr Allen have a 2 year vesting period and the PPSs issued to the 7 executives have a 3 year vesting period.

Partly Paid Ordinary Shares

Issue Date	Earliest Exercise Date	Expiry Exercise Date	Share Hurdle Price	PPS Price	Balance Paid on Exercise	No. of PPSs Outstanding
6 Dec 2011	6 Dec 2013	6 Dec 2015	\$0.2556	\$0.2556	\$0.2506	1,347,329
15 Apr 2013	15 Apr 2015	15 Apr 2017	\$0.1725	\$0.1725	\$0.1675	807,665
24 Jun 2013	24 Jun 2016	24 Jun 2018	\$0.1629	\$0.1629	\$0.1579	1,635,665
			\$0.1979[1]	\$0.1979[1]	\$0.1929[1]	3,790,659

1 Weighted average price

The PPSs carry voting entitlements proportionate to the amount paid up on each share. In total, the PPSs carry voting rights equivalent to 99,971 fully paid ordinary shares.

US Employee Share Options

Wellington Drive currently has 288,647 options on issue, held by Gerardo Gonzalez, Vice President, Intelligent Systems Business Unit.

The United States Share Option Plan was established in June 2010 and the Board was authorised to grant up to 3,000,000 options. All options must be exercised within 12 months after the period of 3 years in which the options are granted. The exercise price for the options is the closing sales price on the date of the grant plus a 30% premium.

US Employee Share Options

Grant Date	Expiry Date	Exercise Price	Options Outstanding
24 Jun 2013	24 Jun 2017	\$0.169	288,647

Share Warrants

In September 2013, Wellington Drive issued 5,300,000 share warrants to East West. The terms of the warrants allow East West to acquire additional ordinary shares at \$0.20 per share by September 2015.

4.5 Strategic Plan

The Company's current growth strategy is based on 2 key themes:

- *improve core electronic motor and airflow solutions business* – continued improvement in the core electronic motor and airflow solutions business through customer led product development, executing core *bottle cooler* market growth plans, diversifying motor revenue streams into new market streams, deploying lean business process improvements and delivering continual cost reduction programs

- *develop new Intelligent Solutions business* – innovating for its customers by developing intelligent electronic control solutions that solve their refrigeration systems maintenance problems, provide connectivity solutions that support their market needs and reduce the total cost of ownership for the refrigeration systems.

The 5 main priorities for the Company in 2014 are:

- establish sales partnerships to access growth opportunities in new markets
- revenue diversification through increased business with supermarket display manufacturers
- launch the Company's first smart controller into the commercial refrigeration market
- grow product development capacity to broaden the Company's product portfolio and solution offering
- complete the East West supplier transition and enable a lower manufacturing cost point.

4.6 Key Issues Affecting the Company

The main industry and specific business factors and risks that the Company faces include:

- commercialisation of new products and technology, which is inherently high risk
- material changes in key commodity prices (copper, steel, aluminium) or supplier costs
- the uncertainty of longer term orders
- significant fluctuations in the Company's sales volume would have negative consequences for the Company's ability to access the volume-dependent prices negotiated with manufacturing suppliers
- a reduction in overall market demand
- a shortage of electronic components, which may result in an inability to meet customers' orders
- the concentration of the Company's customer base amongst a few large customers
- the Company's ability to finance its activities
- circumvention of the Company's intellectual property protection (via legal or illegal means)
- the inadvertent breach of another company's intellectual property
- regulatory or legislative changes including those in respect of energy efficiency
- foreign currency fluctuations that may adversely affect earnings.

4.7 Financial Performance

A summary of Wellington Drive's recent financial performance is set out below.

Summary of Wellington Drive Financial Performance				
	Year to 31 Dec 10 (Audited) $000	Year to 31 Dec 11 (Audited) $000	Year to 31 Dec 12 (Audited) $000	Year to 31 Dec 13 (Audited) $000
Revenue	28,015	34,985	35,562	27,437
Gross profit	924	1,719	4,972	5,131
Loss before interest and taxation	(14,923)	(14,460)	(6,280)	(3,748)
Loss before income tax	(14,847)	(14,472)	(6,319)	(3,763)
Loss for the year	(14,847)	(14,472)	(6,333)	(3,768)

Source: Wellington Drive audited financial statements

Wellington Drive's revenue increased by 25% in the 2010 financial year, driven by a 50% volume increase in ECR motors to the commercial refrigeration market and strengthening key customer relationships and key account growth. The loss was due primarily to weaker gross margins arising from component shortages in the electronic supply industry caused by the effects of the global financial crisis. The Company also recorded an intangible asset impairment of $0.8 million, foreign exchange losses of $0.8 million and inventory write-downs of $0.6 million.

Revenue increased by 25% in the 2011 financial year due to strengthening of the customer value proposition and acceptance of the product range by key international customers. Geographic areas of growth included America and Europe. The Company launched a restructuring program in 2011, which had the objectives of reducing costs and improving cash. The 2011 result included non-recurring costs of $5.2 million, reflecting inventory provisioning and restructuring items related to the wind down of the ventilation business, rationalisation of the refrigeration product range and changes to Wellington Drive's organisation structure.

Wellington Drive's financial performance improved markedly in the 2012 financial year due to an improvement in gross margins due to the release of stock and warranty provisions no longer required ($0.7 million) and operational improvements including targeting higher margin sales activities, reductions in operating costs and cost reduction initiatives with major suppliers. Operating expenses decreased as a result of a significant reduction in headcount as a result of ceasing internal manufacturing in Singapore and the benefits of a lean business improvement program focused on eliminating wasteful business processes and reducing associated costs.

Revenue decreased by 23% in the 2013 financial year, due mainly to the exit from the ventilation business. 70% of the Company's revenue was earned in Latin America. Gross margin continued to improve due to supply chain operating cost reduction and execution efficiency. Operating expenses continued to decrease as a result of a continued focus on managing sales, general and administrative expenses, reducing impairment charges and the simplification of business processes.

4.8 Financial Position

A summary of Wellington Drive's recent financial position is set out below.

Summary of Wellington Drive Financial Position

	As at 31 Dec 10 (Audited) $000	As at 31 Dec 11 (Audited) $000	As at 31 Dec 12 (Audited) $000	As at 31 Dec 13 (Audited) $000
Current assets	26,609	22,732	14,914	14,882
Non current assets	4,904	3,797	1,773	1,991
Total assets	31,513	26,529	16,687	16,873
Current liabilities	(13,177)	(14,040)	(9,201)	(7,513)
Non current liabilities	(68)	(9)	-	-
Total liabilities	(13,245)	(14,049)	(9,201)	(7,513)
Total equity	18,268	12,480	7,486	9,360

Source: Wellington Drive audited financial statements

Wellington Drive's main current assets are trade receivables and inventories. The Company has significantly reduced its inventory holding over the period from a peak of $14.2 million as at 31 December 2010 to $4.0 million as at 31 December 2013.

Wellington Drive's main non current assets are intangible assets in the form of patents, development costs and software.

Liabilities consist mainly of trade and other payables and provisions.

Wellington Drive had cash on hand amounting to $3.0 million as at 31 December 2013 and no interest bearing debt at that date.

4.9 Cash Flows

A summary of Wellington Drive's recent cash flows is set out below.

Summary of Wellington Drive Cash Flows

	Year to 31 Dec 10 (Audited) $000	Year to 31 Dec 11 (Audited) $000	Year to 31 Dec 12 (Audited) $000	Year to 31 Dec 13 (Audited) $000
Net cash outflow from operating activities	(17,406)	(6,518)	(3,453)	(2,436)
Net cash used in investing activities	(1,378)	(1,452)	(241)	(1,052)
Net cash from financing activities	5,703	8,870	2,001	4,550
Net increase / (decrease) in cash held	(13,081)	900	(1,693)	1,062
Opening cash balance	16,059	2,900	3,628	1,869
Effect of exchange rate movements	(78)	(172)	(66)	53
Closing cash balance	2,900	3,628	1,869	2,984

Source: Wellington Drive audited financial statements

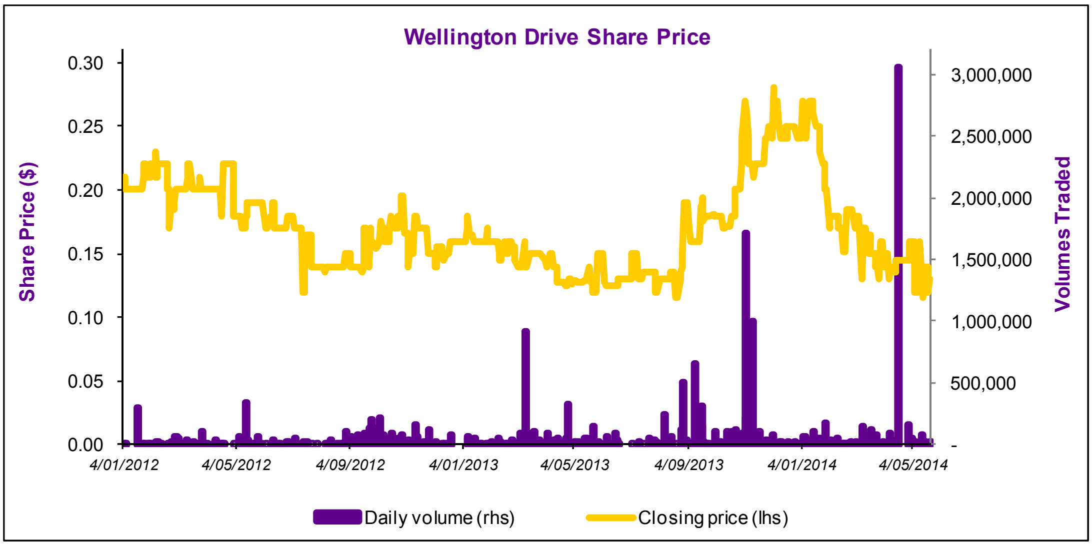
Net cash outflows from operating activities were particularly high in the 2010 financial year due to high levels of inventory due to component supply problems.

Net cash used in investing activities mainly represents expenditure on intangible assets.

Net cash from financing activities includes $23.8 million of net proceeds from share issues over the 4 years. In the 2013 financial year, the Company raised $4.0 million from the 2013 Capital Raising, $0.5 million from the 2013 SPP and $1.6 million from a share placement to East West.

4.10 Share Price History

Set out below is a summary of Wellington Drive's daily closing share price and daily volumes of shares traded from 4 January 2012 to 22 May 2014.



Source: NZX Data

During the period, Wellington Drive's shares have traded between $0.12 and $0.28 at a VWAP of $0.17.

Trading in the Company's shares is extremely thin, reflecting that 47.70% of the shares are currently held by SuperLife, Hunter Hall, East West and Harbour and the top 10 shareholders collectively hold 70.13% of the shares. 9.7% of the Company's shares have traded in the past year on 151 days.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) is set out below.

Share Trading					
Period	**Low [1] ($)**	**High [1] ($)**	**VWAP [1] ($)**	**Volume Traded [1] (000)**	**Liquidity**
1 month	0.12	0.16	0.15	454	0.4%
3 months	0.12	0.20	0.15	4,288	3.4%
6 months	0.12	0.28	0.17	5,543	4.4%
12 months	0.12	0.28	0.18	12,251	9.7%

1 To 22 May 2014

Source: NZX Data

A parcel of 3,059,686 shares traded at $0.145 on 17 April 2014. The trade appears to have been between funds within one of the major shareholders rather than an arms-length on-market transaction between 2 non-associated parties.

5. Valuation of the Mandatory Convertible Preference Shares

5.1 Methodology and Valuation Approach

The MCPS represent a Wellington Drive equity security which has the characteristics of both a bond-like security and an embedded option:

- the bond-like component promises the MCPS holders the payment of a coupon of 5.0% per annum, payable on a 6 monthly basis, in arrears
- the embedded option component provides the MCPS holders with the ability to benefit if the share price of Wellington Drive is above $0.25 at the Conversion Date.

To assess the value of the MCPS, it is necessary to assess the value of the bond component and the embedded option component.

Valuation of Bonds

The value of the bond is a function of the interest rate on the bond and the value of the principal returned.

The MCPS will pay a coupon of 5.0% per annum and, because of the Conversion Ratio, effectively a repayment of $0.25 of principal on the Conversion Date.

A required rate of return higher than the coupon will result in a bond value lower than the principal and vice versa.

In our view, the required rate of return on a “plain vanilla” unsecured bond offered by Wellington Drive at this point in time would be in the range of 9.0% to 10.0% per annum.

Valuation of Options

The Binomial option-valuation model (**Binomial Model**) and the Black-Scholes option-valuation formula (**Black-Scholes Formula**) are commonly used in commercial practice to value options. The Binomial Model is more appropriate for the valuation of American options (which can be exercised at anytime during their life, as opposed to European options which can only be exercised on one particular day) and options over shares which are expected to pay dividends during the exercise period, although variants of the Black-Scholes Formula exist to handle the valuation of such options.

The key variables in determining the value of a European Option are:

- the exercise price of the option
- the risk free rate
- the current spot price or market value of the underlying instrument
- the volatility of the returns on the underlying instrument
- the time to expiry
- the expected distributions to be made on the underlying instrument.

5.2 Valuation Assessment of Bond Component

Valuation Parameters

The key variables applied in our assessment of the value of the bond component of the MCPS are:

- valuation date – 19 May 2014, being the allotment date of the MCPS
- coupon – 5.0% per annum, paid on a 6 monthly basis, in arrears
- repayment date – 19 May 2017, being the Conversion Date
- principal repayment - $0.25 (due to the Conversion Ratio)
- required yield – 9.0% to 10.0% per annum.

Conclusion

Based on the above, we assess the fair value of the bond component of the MCPS to be in the range of $0.211 to $0.217 per MCPS.

5.3 Valuation Assessment of Option Component

Valuation Parameters

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

- valuation date – 19 May 2014, being the allotment date of the MCPS
- exercise price – $0.25 per share, being the effective conversion price under the Conversion Ratio
- the risk free rate – 3.9% based on the current yield on New Zealand Government 15 December 2017 bonds
- the current market value of Wellington Drive shares – $0.15, being the one month VWAP up to 19 May 2014
- volatility – 90% to 95%, based on the observed volatility levels of movements in Wellington Drive's share price
- the time to expiry – 19 May 2017, being the Conversion Date
- expected distributions – nil, based on the Company’s current dividend history.

Conclusion

Based on the above, we assess the fair value of each embedded option in the MCPS to be in the range of $0.061 to $0.066.

5.4 Valuation Conclusion

Based on the above, we assess the fair value of each MCPS to be in the range of $0.27 to $0.28.

Valuation of MCPS		
Security Component	**Value of MCPS**	
	Low ($)	**High ($)**
Bond	0.211	0.217
Embedded option	0.061	0.066
Value per MCPS	0.272	0.283

6. Sources of Information, Reliance on Information, Disclaimer and Indemnity

6.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of annual meeting
- the Wellington Drive annual reports for the years ended 31 December, 2010 to 2013
- the MCPS Offer Document
- the Underwriting Agreement
- the Meta Sub-underwriting Agreement
- data in respect of Wellington Drive from NZX Data and Capital IQ.

During the course of preparing this report, we have had discussions with and / or received information from the Board and executive management of Wellington Drive and Wellington Drive's legal advisers.

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report and Appraisal Report with all information relevant to the MCPS Issue, the Underwriting Arrangements and the SuperLife MCPS Conversion that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report and Appraisal Report.

In our opinion, the information to be provided by Wellington Drive to the Non-associated Shareholders is sufficient to enable the Board and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Underwriting Arrangements and the SuperLife MCPS Conversion.

6.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Wellington Drive and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Wellington Drive. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

6.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Wellington Drive will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Wellington Drive and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in the preparation of the notice of annual meeting issued by Wellington Drive and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

6.4 Indemnity

Wellington Drive has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Wellington Drive has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

7. Qualifications and Expertise, Independence, Declarations and Consents

7.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

7.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Wellington Drive or the SuperLife Associates or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to these transactions.

Simmons Corporate Finance has not had any part in the formulation of the MCPS Issue, the Underwriting Arrangements or the SuperLife MCPS Conversion or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Underwriting Arrangements and the SuperLife MCPS Conversion. We will receive no other benefit from the preparation of this report.

7.3 Declarations

An advance draft of this report was provided to the Board for its comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

7.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of annual meeting to be sent to Wellington Drive's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

Peter Simmons
Director
Simmons Corporate Finance Limited
23 May 2014