



ANNUAL REPORT

Balance Date 30 June 2003

Report Date 24th October 2003

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FINANCIAL REPORT

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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2003

	Notes	This Year		Last Year	
		Group	Parent	Group	Parent
		Twelve Months	Twelve Months	Nine Months	Nine Months
		\$	\$	\$	\$
Operating Revenue	1				
Consultancy Fees Received		17,524	17,524	4,725	4,725
Funding received		9,066	9,066	-	-
Interest received		50,678	50,678	93,799	93,799
		<u>77,268</u>	<u>77,268</u>	<u>98,524</u>	<u>98,524</u>
Operating Expenses	2				
Amortisation of Licences & Wind Rights		150,076	150,076	135,007	135,007
Engineering Costs		520,521	520,521	193,919	193,919
Research and Development Costs		28,694	28,694	17,640	17,640
Marketing Costs		59,227	59,227	7,813	7,813
General and Administration Costs		387,810	386,837	453,040	453,040
Depreciation		31,040	30,629	29,412	29,412
		<u>1,177,368</u>	<u>1,175,984</u>	<u>836,831</u>	<u>836,831</u>
Net Deficit		<u>(1,100,100)</u>	<u>(1,098,716)</u>	<u>(738,307)</u>	<u>(738,307)</u>

WINDFLOW TECHNOLOGY LIMITED
STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2003

	This Year		Last Year	
	Group	Parent	Group	Parent
	Twelve Months	Twelve Months	Nine Months	Nine Months
	\$	\$	\$	\$
Equity at Beginning of Year	3,137,034	3,137,034	-	-
Net Deficit	(1,100,100)	(1,098,716)	(738,307)	(738,307)
Contributions from Owners				
Ordinary Shares Issued during the Year	106,500	106,500	3,875,341	3,875,341
Equity at End of Year	<u>2,143,434</u>	<u>2,144,818</u>	<u>3,137,034</u>	<u>3,137,034</u>

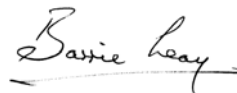
STATEMENT OF FINANCIAL POSITION
AS AT THE 30TH JUNE 2003

	Notes	This Year		Last Year	
		Group	Parent	Group	Parent
		Twelve Months	Twelve Months	Nine Months	Nine Months
		\$	\$	\$	\$
Shareholders' Equity					
Share Capital	6	3,981,841	3,981,841	3,875,341	3,875,341
Retained Earnings Account	8	(1,838,407)	(1,837,023)	(738,307)	(738,307)
Total Shareholders' Equity		2,143,434	2,144,818	3,137,034	3,137,034
Current Liabilities	9				
Accounts Payable		218,268	218,268	100,001	100,001
Total Current Liabilities		218,268	218,268	100,001	100,001
Total Equity and Liabilities		2,361,702	2,363,086	3,237,035	3,237,035

Current Assets					
Cash on Hand and at Bank		93,048	93,048	140,708	140,708
Term Deposits	10	16,919	16,919	1,600,610	1,600,610
Tax Refund Due		-	-	28,064	28,064
Accounts Receivable	10	6,779	6,779	11,350	11,350
Prepayments		4,224	4,224	-	-
GST Refund		46,215	46,093	25,865	25,865
Other Assets		-	16,904	-	15,809
Total Current Assets		167,185	183,967	1,806,597	1,822,406
Non Current Assets					
Fixed Assets	11	1,264,539	1,263,593	350,384	349,027
Intangible Assets	12	929,978	915,526	1,080,054	1,065,602
Total Non Current Assets		2,194,517	2,179,119	1,430,438	1,414,629
Total Assets		2,361,702	2,363,086	3,237,035	3,237,035

For and on behalf of the Board

P B Leay
Chairman



G M Henderson
CEO/Director



Dated: 24th October, 2003

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2003

	This Year		Last Year	
	Group	Parent	Group	Parent
	Twelve Months \$	Twelve Months \$	Nine Months \$	Nine Months \$
Cash flows from operating activities				
<i>Cash was provided from:</i>				
Receipts from consulting fees	14,524	14,524	4,725	4,725
Funding Received	9,066	9,066	-	-
Income Tax Refunded	28,064	28,064	-	-
Interest received	62,000	62,000	82,450	82,450
	<u>113,654</u>	<u>113,654</u>	<u>87,175</u>	<u>87,175</u>
<i>Cash was disbursed to:</i>				
Payments to suppliers	565,478	564,383	163,381	161,096
Payments to employees	294,629	294,629	252,383	252,383
Interest paid	-	-	504	504
Net GST	6,575	6,575	-	2,285
Income Tax	-	-	28,063	28,063
	<u>866,682</u>	<u>865,587</u>	<u>444,331</u>	<u>444,331</u>
Net Cash Flows from operating activities	(753,028)	(751,933)	(357,156)	(357,156)
Cash flows from investing activities				
<i>Cash was provided from:</i>				
Disbursed from Term Deposit Accounts	1,583,691	1,583,691	-	-
	<u>1,583,691</u>	<u>1,583,691</u>		
<i>Cash was disbursed to:</i>				
Development of the Wind Turbine and associated costs	936,705	936,705	186,741	186,741
Purchase of other fixed assets	9,863	9,863	107,453	107,453
Disbursed to Term Deposit Accounts	-	-	1,600,610	1,600,610
	<u>946,568</u>	<u>946,568</u>	<u>1,894,804</u>	<u>1,894,804</u>
Net Cash Flows from investing activities	637,123	637,123	(1,894,804)	(1,894,804)
Cash flows from financing activities				
<i>Cash was provided from:</i>				
Issue of Shares	106,500	106,500	2,553,182	2,553,182
	<u>106,500</u>	<u>106,500</u>	<u>2,553,182</u>	<u>2,553,182</u>
<i>Cash was disbursed to:</i>				
Issue Costs of Equity	38,255	38,255	154,984	154,984
Prepayments	-	-	4,721	4,721
Advance to Wind Torque Limited	-	1,095	809	809
	<u>38,255</u>	<u>39,350</u>	<u>160,514</u>	<u>160,514</u>
Net Cash Flows from financing activities	68,245	67,150	2,392,668	2,392,668
Net Increase (Decrease) in cash held	(47,660)	(47,660)	140,708	140,708
Cash at beginning of year	<u>140,708</u>	<u>140,708</u>	<u>-</u>	<u>-</u>
Cash at end of year	<u>93,048</u>	<u>93,048</u>	<u>140,708</u>	<u>140,708</u>

WINDFLOW TECHNOLOGY LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30TH JUNE 2003

REPORTING ENTITY

Windflow Technology Limited is a company registered under the Companies Act 1993.

Windflow Technology Limited is an issuer for the purpose of the Financial Reporting Act 1993. The financial statements of the Company and Group have been prepared in accordance with the Financial Reporting Act 1993.

The Company and its subsidiary comprise the group.

MEASUREMENT BASE

The accounting principles, recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis, are followed by the group.

NATURE OF BUSINESS

Wind power development.

The Company operates solely within New Zealand.

SPECIFIC ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of the financial performance, financial position and cash flows are set out below:

Basis of Consolidation

The consolidated financial statements are prepared from the financial statements of the Company, and its subsidiary, using the purchase method.

All significant inter company transactions are eliminated on consolidation.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company.

In the Company's financial statements, investment in the subsidiary is recognised at cost or fair value if there is a permanent diminution in value.

Revenue Recognition

Revenues are recognised when services are performed

Depreciation

Depreciation is calculated on a straight line basis which will write off the cost of the assets evenly over their expected useful lives. For major classes of plant and equipment, motor vehicles, the expected useful lives are:

Wind Turbine & Associated Assets	10.0	years
Motor Vehicle	4.6	years
Office Equipment	2.8 to 8.3	years

STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

Investment Revenue

Interest revenue from investments and fixed deposits is recognised on an accruals basis.

Goods and Services Tax

The accounts have been prepared on a GST exclusive basis; except that all receivables and payables are shown GST inclusive to the extent that GST is payable or receivable on the transaction that gave rise to the payable or receivable.

Taxation

Taxation recognised in the Statement of Financial Performance for the period is based on the accounting result, adjusted for permanent differences between accounting and taxation rules.

Any income tax expenses charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

A deferred tax benefit relating to tax losses is recognised only if there is a virtual certainty of realisation.

There is no deferred tax asset or liability as at the 30th June 2003.

Valuation of Assets

Receivables

Receivables are stated at their estimated realisable value

Fixed Assets

The Company has the following classes of assets

Wind Turbine and Associated Assets

Motor Vehicle

Office Equipment

All fixed assets are recorded at cost.

Depreciation is provided for on a straight line basis on all tangible fixed assets at depreciation rates calculated to allocate the assets cost less estimated residual value, over their estimated useful lives.

No depreciation has been claimed on part constructed assets.

Major depreciation periods are:

Wind Turbine and Associated Assets (To commence on completion, 1 ST July 2003)	10.0	years
Motor Vehicle	4.6	years
Office Equipment	2.8 to 8.3	years

STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

Intangibles

1. Research and Development Costs

Research expenditure is recognised in the statement of financial performance in the period in which it is incurred.

Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are recognised in the statement of financial performance in the period in which they are incurred.

Development expenditure, recognised as an asset, is stated at cost and amortised in the statement of financial performance over the period of expected benefits.

All other development expenditure is recognised in the statement of financial performance as incurred.

2. Licences

Licences are valued at fair value and amortised to the statement of financial performance on a straight line basis over their estimated useful lives, this has been determined to be 8 years and the write off to be one eighth, per financial period. For any lesser period the one eighth is apportioned on a monthly basis.

Fair value was determined by the Directors and a summary of the terms and conditions in regard to the acquisition of this intellectual property was listed under clauses 7 and 11, note 17.4 of the Prospectus, dated 9th July 2001.

Comparative Figures

The Company commenced trading in October 2001. The comparatives are for the nine month period ended 30th June 2002.

Employee Entitlements

A liability for annual leave and long service leave is accrued and recognised in the statement of financial position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

A share option plan to the benefit of employees of the Company is in existence.

Foreign Currency Transactions

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.

Changes in Accounting Policies

There have been no changes in accounting policies during the period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003

	30th June 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
1. Operating Revenue				
Operating Revenue includes:				
Consultancy fees	17,524	17,524	4,725	4,725
Funding Received	9,066	9,066	-	-
Interest received – Term deposits	50,678	50,678	93,799	93,799
2. Operating Expenses				
Operating Expenses include:				
Amortisation of licences and wind rights	150,076	150,076	135,007	135,007
Research and Development Costs	28,694	28,694	17,640	17,640
Audit Fees	4,150	4,150	540	540
Directors' Fees	85,000	85,000	75,000	75,000
Interest – Bank overdraft	-	-	504	504
Prospectus Costs	93,416	93,416	251,165	251,165
Rent and Leases	10,250	10,250	10,319	10,319
3. Prospectus Costs				
Total costs	93,416	93,416	251,165	251,165
4. Taxation				
Operating Deficit	1,094,435	1,093,051	738,307	738,307
Prima facie taxation expense at 33%	-	-	-	-
Less taxation effect of permanent differences				
Amortisation of Intangibles	150,076	150,076	135,007	135,007
Issue Costs	93,416	93,416	251,165	251,165
	-----	-----	-----	-----
	243,492	243,492	386,172	386,172
	-----	-----	-----	-----
	850,943	849,559	352,135	352,135
Losses brought forward	352,135	352,135	-	-
	-----	-----	-----	-----
Deficit and losses carried forward for taxation purposes	1,203,078	1,201,694	352,135	352,135
	-----	-----	-----	-----

There is no income tax payable for the period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

	30 th June 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
5. Imputation Credit Account				
Balance at beginning of period	28,064	28,064	-	-
Income Tax refunded during the year	28,064	28,064	-	-
	-----	-----	-----	-----
	-	-	-	-
Income tax payments during the year:				
Resident Withholding Tax paid	-	-	28,064	28,064
	-----	-----	-----	-----
Balance at end of period	-	-	28,064	28,064
	-----	-----	-----	-----

6. Share Capital

Balance at beginning of period	3,875,341	3,875,341	-	-
Ordinary Shares Issued	106,500	106,500	3,875,341	3,875,341
	-----	-----	-----	-----
Total Share Capital	3,981,841	3,981,841	3,875,341	3,875,341
	-----	-----	-----	-----
Number of shares on issue	2,717,145	2,717,145	2,646,645	2,646,645

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Reserves

Balance at beginning of period	-	-	-	-
Less reduction in value of shares	-	-	(1,200,609)	(1,200,609)
Plus write up in value of licences & wind rights	-	-	1,200,609	1,200,609
	-----	-----	-----	-----
Balance at end of period	-	-	-	-
	-----	-----	-----	-----

7. Share Option Plan

The Company entered into a share option plan with Mr G Henderson, the Executive Director on the 20th January 2002. This put in to effect the terms of the Licence Agreement as outlined in the prospectus, dated 9th July 2001, and as summarised below.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

7. Share Option Plan (continued)

The agreement transferring the TLG Licence from Wind Torque Ltd to Windflow Technology Ltd provided that a royalty was payable to Mr G Henderson for each of the first 100 wind turbines sold. The amount of the royalty is \$ 10,000 per turbine plus 10,000 share options of \$ 1.00 each. The total number of options is limited to 20% of the Windflow Technology Limited shares on issue.

Each option to purchase shares will lapse if not exercised within six months of issue. The option price is \$ 1.00, or if a market price for Windflow Technology Limited shares has been established at a level which raises concerns for the Directors that the option price is not fair and reasonable to existing shareholders, the option price will be determined as the average market price in the last month of the quarter less one third.

The Company, on the 19th December 2002, entered into a share option plan for the benefit of all employees of the Company who have attained the age of twenty years and, who have been employed by the Company, for at least one year. The selection of the participants and the number of shares comprised in options shall be determined by the Directors. Any offer of an option shall be at a price equal to the market price at the date of the resolution by the Directors to make an offer.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

	30th June 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
8. Retained Earnings Account				
Balance at beginning of the period	(738,307)	(738,307)	-	-
Net Deficit for the period	(1,100,100)	(1,098,716)	(738,307)	(738,307)
	-----	-----	-----	-----
Balance at end of year	(1,838,407)	(1,837,023)	(738,307)	(738,307)
 9. Current Liabilities				
Current liabilities consist of accounts payable and accruals, which are unpaid as at the period end.				
Trade Payables	86,774	86,774	25,106	25,106
Trade Payables – Asset Purchases	104,014	104,014	67,045	67,045
Employee entitlements	27,480	27,480	7,850	7,850
	-----	-----	-----	-----
	218,268	218,268	100,001	100,001
An account from one major supplier remains in dispute and this has not been accrued. The total in dispute is \$ 14,500 inclusive of GST.				
 10. Current Assets				
<u>Term Deposits</u>				
Term Deposits maturing within six months	16,919	16,919	1,100,610	1,100,610
Term Deposits maturing within one year	-	-	500,000	500,000
	-----	-----	-----	-----
	16,919	16,919	1,600,610	1,600,610
 <u>Accounts Receivable</u>				
Trade receivables	6,750	6,750	-	-
Accrued Interest	29	29	11,350	11,350
	-----	-----	-----	-----
	6,779	6,779	11,350	11,350

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

	30 th June 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
11. Fixed Assets				
Wind Turbine and Associated Assets				
Site Costs	33,520	33,520	10,123	10,123
Turbine	976,360	976,360	136,522	136,522
Tooling, Equipment, Moulds	208,455	208,455	136,360	136,360
	-----	-----	-----	-----
Total Wind Turbine and Associated Assets	1,218,335	1,218,335	283,005	283,005
Less Accumulated Depreciation	-	-	-	-
	-----	-----	-----	-----
	1,218,335	1,218,335	283,005	283,005
Motor Vehicles	17,342	17,342	10,408	10,408
Less Accumulated Depreciation	4,401	4,401	1,903	1,903
	-----	-----	-----	-----
	12,941	12,941	8,505	8,505
Office Equipment	97,942	87,957	95,011	85,026
Less Accumulated Depreciation	64,679	55,640	36,137	27,509
	-----	-----	-----	-----
	33,263	32,317	58,874	57,517
	-----	-----	-----	-----
Total Fixed Assets	1,264,539	1,263,593	350,384	349,027
	-----	-----	-----	-----

No depreciation has been claimed on part constructed assets.

12. Intangible Assets

Fair value of licences and wind rights	1,215,061	1,200,609	1,215,061	1,200,609
Less Accumulated Amortisation	285,083	285,083	135,007	135,007
	-----	-----	-----	-----
	929,978	915,526	1,080,054	1,065,602

The ownership of the licences and wind rights were transferred from the subsidiary company, Wind Torque Limited, on the 20th January 2002 to Windflow Technology Limited by way of an agreement between the Company, its subsidiary and Mr G Henderson.

Intangibles are being amortised over 8 years from date of purchase.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

13. Acquisition of a Subsidiary

On the 26th September 2001 the Company acquired 100% of the shares of Wind Torque Limited. Wind Torque Limited, at that time, was the beneficial owner of a patent licence and wind rights over a property in the North Island.

Wind Torque Limited has operated as a small consulting engineering firm since 1990.

Consideration	
800,406 shares in Windflow Technology Ltd	1,200,609
Assets acquired:	
Licences and wind rights	1,215,061
Fixed Assets	1,357

	1,216,418
Less Short Term Advance	15,809

	1,200,609

In the opinion of the Directors the consideration of \$ 1,200,609 was fair and reasonable to the Company and to the existing shareholders, and a Directors' Certificate to that effect was filed pursuant to Section 47(2) of the Companies Act 1993.

The terms and conditions relating to this determination of fair value, by the Directors, are listed under clauses 7 and 11, note 17.4 of the Prospectus, dated 9th July 2001.

The balance date of the subsidiary is the 30th June.

The ownership of the licences and wind rights were transferred from the subsidiary company, Wind Torque Limited, on the 20th January 2002 to Windflow Technology Limited by way of an agreement between the Company, its subsidiary and Mr G Henderson.

14. Commitments

Capital Commitments as at balance date totalled \$ 21,200. These are for costs associated with the construction of the wind turbine.
(30th June 2002 \$ 448,090)

15. Contingent Liabilities

As at the 30th June 2003 the erected wind turbine required some minor modifications in order to reduce the present noise levels. The cost of these adjustments had yet to be determined at balance date, apart from this no other contingent liabilities existed.
(30th June 2002 nil.)

16. Employee Entitlements

A liability for annual leave is accrued and recognised in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

17. Financial instruments

Credit Risk

To the extent that the Company has a receivable from another party, there is a credit risk in the event of non performance by that counter party. Financial instruments, which potentially subject the Company to credit risk, principally consist of bank balances, receivables, investments in term deposits.

The Company monitors the credit quality of its investments and manages its exposure to credit risk.

Concentrations of credit risk

The Company does not have any significant concentrations of credit risk apart from its investments with a large and reputable bank.

Currency Risk

The Company has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities.

Such activities are not of a material nature.

Interest Rate Risk

The Company has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates.

	30 th June 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
Investments in term deposits				
Six months or less	16,919	16,919	1,100,610	1,100,610
Six to twelve months	-	-	500,000	500,000
	-----	-----	-----	-----
	16,919	16,919	1,600,610	1,600,610
	-----	-----	-----	-----

Credit Facilities

The Company has no credit facilities.

Fair Values

The estimated fair values of financial instruments do not differ from the carrying values.

18. Significant Events After Balance Date

A short form prospectus dated the 25th July 2003 for the raising of funds for the Stage 2 expansion was released. Initial costs for the preparation of this document are included within the financial accounts for the year ended 30th June 2003 but additional costs are applicable in the new financial year, these are estimated to total \$48,000.

There were no other significant events after balance date.

19. Related Party Disclosures

All related party transactions are at normal market terms and conditions. No related party debts have been written off or forgiven.

The Company paid project management fees and fees for services related to the Stage 2 prospectus issue to two Directors, Messrs B Leay (\$10,162) and K McConnell (\$95,205), and the fees were charged on normal terms.

As at balance date, of the amount paid to Mr K McConnell, \$ 30,635 was still owing.

The amount paid totalled for the twelve month period \$ 105,367.
(30th June 2002 \$ 11,531)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

	30th June 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
20. Reconciliation of reported deficit with cash flows from operating activities				
Net Deficit	(1,100,100)	(1,098,716)	(738,307)	(738,307)
Less				
Non Cash Items and non operating items:				
Amortisation of Licences & Wind Rights	150,076	150,076	135,007	135,007
Depreciation	31,040	30,629	29,412	29,412
Issue Costs of Equity	93,416	93,416	251,165	251,165
	-----	-----	-----	-----
	274,532	274,121	415,584	415,584
	-----	-----	-----	-----
Cash Flow from Operations before working capital changes	(825,568)	(824,595)	(322,723)	(322,723)
 Movements in Working Capital				
Increase (Decrease) in accounts payable excluding asset purchases	59,479	59,479	30,846	30,846
Decrease (Increase) in tax refund	28,064	28,064	(28,064)	(28,064)
Decrease (Increase) in accounts receivable	4,571	4,571	(11,350)	(11,350)
Decrease (Increase) in Prepayments	(4,224)	(4,224)	-	-
Decrease (Increase) in GST receivable	(15,350)	(15,228)	(25,865)	(25,865)
	-----	-----	-----	-----
	72,540	72,662	(34,433)	(34,433)
	-----	-----	-----	-----
Net Cash Flows from Operating Activities	(753,028)	(751,933)	(357,156)	(357,156)
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

21. Prospective Financial Information

In July 2001 the Company issued a prospectus for the issue of shares. The following information is a comparison of the projected financial statements of Windflow Technology Limited, for the periods ended 30th June 2002 and 30th June 2003, and the actual result for the periods ended 30th June 2002 and 30TH June 2003.

Statement of Financial Performance

	Projections 2003 30 June (12 Mths) \$	Actual 2003 30 June (12 Mths) \$	Projections 2002 30 June (12 Mths) \$	Actual 2002 30 June (9 Mths) \$
Operating Revenue				
Consultancy Fees Received	100,000	17,524	-	4,725
Funding received	-	9,066	-	-
Interest received	37,000	50,678	111,000	93,799
Sale of installed Turbines	3,876,000	-	-	-
Sale of Power	100,000	-	-	-
	-----	-----	-----	-----
	4,113,000	77,268	111,000	98,524
Operating Expenses				
Amortisation of Licences & Wind Rights	-	150,076	-	135,007
Engineering Costs	3,770,000	520,521	698,000	193,919
Research and Development Costs	-	28,694	-	17,640
Marketing Costs	290,000	59,227	134,000	7,813
General and Administration Costs	599,000	386,837	464,000	453,040
Depreciation	375,000	30,629	7,000	29,412
	-----	-----	-----	-----
	5,034,000	1,175,984	1,303,000	836,831
	-----	-----	-----	-----
Net Deficit	921,000	1,098,716	1,192,000	738,307

Statement of Cash Flows

Opening Balance	734,000	140,708	-	-
Net cash inflows (outflows) from operating activities	(734,000)	(751,933)	(976,000)	(357,156)
Net cash inflows (outflows) from investing activities	(3,959,000)	637,123	(1,204,000)	(1,894,804)
Net cash inflows (outflows) from financing activities	3,925,000	67,150	2,914,000	2,392,668
	-----	-----	-----	-----
Net Increase (Decrease) in cash held	(768,000)	(47,660)	734,000	140,708
	-----	-----	-----	-----
Closing Balance	(34,000)	93,048	734,000	140,708

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2003 (Continued)

The major variances between the projections and actual are as follows:

For this year both the projections and actuals are for a twelve month period.

Note that for the previous year (2002) the projections were for a full twelve months, the enterprise commenced three months into that financial year and therefore the actuals are for a nine month period ended 30th June 2002.

Actual investments in capital terms were lower than projected due to the timing of construction of the wind turbine.

The original subscribed funds for the prospectus were lower than projected.

Since the issue of the prospectus the Directors have determined that a policy of amortisation regarding the licences and wind rights be introduced.

The engineering costs variance is due to the timing of construction of the wind turbine and the capitalisation policy adopted by the Directors.

The marketing costs variance is due to a decision to defer significant marketing until nearer the time of completion of the wind turbine.

The projections, contained within the prospectus dated 9th July 2001, as amended on 10th August 2001, for the 2003 year, included the financial projections for the commencement of Stage 2 of the project.

Stage 2 has not commenced and therefore there are very substantial differences between the actual incurred for the year ended 30th June 2003 and the projections for the twelve month period ended 30th June

Audit Report

To the Shareholders of Windflow Technology Limited

We have audited the financial report on pages 2 to 17. The financial report provides information about the past financial performance and financial position of the company and group as at 30 June 2003. This information is stated in accordance with the accounting policies set out in the Statement of Accounting Policies on pages 5 to 7.

Directors Responsibilities

The directors are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the company and group as at 30 June 2003 and the results of its operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial report; and
- whether the accounting policies are appropriate to the company and group circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditor we have no relationship with, or interests in, the company or its subsidiary.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial report on pages 2 to 17
 - complies with generally accepted accounting practice in New Zealand;
 - gives a true and fair view of the financial position of the company and group as at 30 June 2003 and the results of operations and cash flows for the period ended on that date.

Our audit report was completed on 24 October 2003 and our unqualified opinion is expressed as at that date.

Goldsmit Fox PKF

GOLDSMITH FOX PKF
Christchurch
New Zealand

Directors' Review

The year since our last Directors' Review has seen a great deal being achieved within Windflow.

We noted in our last report that we had been advised that two parties were appealing our Resource Consent to the Environment Court. After an intense period of negotiation, agreement was reached whereby Windflow made one change to its Consent reducing the duration from 20 to 10 years. This allowed the two parties to withdraw their appeal and for the final commissioning of the prototype turbine to proceed without any further delay from this quarter. We made it clear at the time that no payment was offered or made to the appellants and this is worth restating in this report.

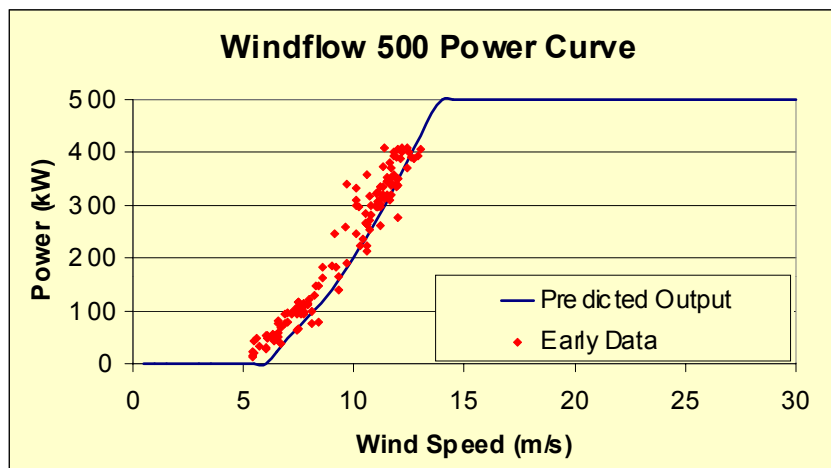
By December 2002, all of the wind turbine components were physically at Bremca Industries in Christchurch. The Windflow team spent the next several months assembling all of these in the factory and undertaking a rotating test which shareholders and other parties had the chance of viewing in March 2003. At the same time final testing was being undertaken on the control software, the steel tubular tower was being constructed, and various site works on the Gebbies Pass site were being completed. In May 2003, all of the components were moved to site and the physical erection of the Windflow 500 was completed. On site testing and commissioning was then undertaken, culminating in the official opening of the installation by the Minister of Energy, Hon Pete Hodgson on 9th July 2003. This event, which was convened on site at Gebbies Pass, was attended by over 200 shareholders and other parties and marked a significant day in the life of our company and its principal, Geoff Henderson.



The opening in July 2003 was somewhat later than had been envisaged but we believed that it was worth taking extra time in assembly, testing and commissioning especially with the first turbine. We believe this process went extremely well and is a credit to the diligent work of our engineering team and our major suppliers.

After the official opening, the turbine was found to be producing more noise than was allowed in our Resource Consent. In consultation with the local neighbours we agreed to restrict the turbine's operation to daylight hours on certain days of the week until the problem is resolved. In simple terms in our Resource Consent we committed to not exceeding 30 decibels (dbA) at the homes of the nearest concerned neighbours when in fact we were producing 35 dbA. 40 dbA is about the noise level that a fridge makes in your kitchen. 40 dbA is allowed in the Banks Peninsula District Plan for rural areas at night-time. The additional noise was largely being caused by a particular gear mesh frequency. The tubular steel tower was acting like a bell, and producing more noise than expected in response to this gearbox-driven vibration. At the time of this report, remedial action has been taken which has substantially reduced the tower noise. Similar action is now underway to reduce noise levels at or around the gearbox itself. Subject to final noise level testing, we believe this will bring the noise level to within our Resource Consent. Once this is confirmed we will be able to operate the turbine continuously.

To date, the engineering performance of the wind turbine has met expectations and the power output has exceeded expectations.



Industry visitors to the top of the nacelle have been impressed at how smoothly the equipment operates in strong winds. Recent fierce norwesters have given the turbine a good workout and have provided an excellent proving ground for the torque limiting gearbox.

At the same time as all of the assembly, testing and commissioning work was being undertaken by the engineering team, the commercial team were busy preparing the Prospectus and Investment Statement in anticipation of the planned Stage 2 capital raising.

In April 2003 we received confirmation from Industry New Zealand that an application to their Business Growth Fund for approximately \$85,000 of matching funding for the completion of the capital raising and certain other activities had been approved. This is the most significant funding that Windflow (or its predecessors) has gained from these funding agencies in over 10 years!

In May 2003 Windflow sought and obtained a listing on the Unlisted Securities Market. In our opinion access to an appropriate share trading platform was a pre-requisite to a successful rights issue, which was to be the method of achieving the Stage 2 capital raising. It was known at the time of this listing that the Unlisted Securities Market had a finite life and would in due course be replaced by the AX Exchange. This is now

happening and Windflow has now made a decision in principle to become a "first fifteen member" of the AX Exchange when it is launched in November.

The Stage 2 Prospectus was launched in July with a one for one renounceable rights issue to existing shareholders. This issue would raise \$5.5 million if fully subscribed which was considered an appropriate amount of capital to proceed with the proposed Stage 2 activities. In the event, the rights issue was successful in raising \$5 million of which 78% came from existing shareholders. We are very pleased with the level of support and the high proportion that came from existing shareholders.

New Zealand has again experienced during 2003 a dry winter that has seen wholesale electricity prices rise significantly as we predicted. They rose above the point whereby wind power becomes viable at good sites. Furthermore there is now widespread acceptance by the electricity industry that alternatives to electricity from gas are required. All of this has already led to Meridian Energy, Genesis Power, and TrustPower announcing significant wind power projects in recent months (141 MW in total). We are disappointed that these three companies have not seriously evaluated New Zealand manufactured Windflow turbines for these projects but it has strengthened our resolve to prove that our technology is better for the robust wind conditions in New Zealand.

Interest from a number of other Australian and New Zealand third party prospective customers is running at a high level and Windflow will be extending every effort through its new Business Development Manager (Chris Freear) to service this interest. Windflow expects to sign up orders from these independent sources. Simultaneously New Zealand Windfarms Ltd is proceeding with preparatory work for the establishment of its own windfarm.

In the near future, the focus of the Windflow engineering team is being directed to the manufacture of the six turbines proposed in the Stage 2 Prospectus. Although the capital raising was about \$500,000 short of maximum, the shortfall is not considered sufficient to change the planned build programme. The focus of the commercial team is being directed at the formation and capital raising required for New Zealand Windfarms, as was outlined in the Stage 2 Prospectus.

We signalled in the Stage 2 Prospectus that we had reached an agreement with our principal Geoff Henderson for Windflow to acquire the US Patent Rights for the torque limiting gearbox. The proposed purchase includes the payment of a capital payment of \$250,000 of which 60% will be applied by Geoff Henderson to buy additional shares. It is intended to proceed with this acquisition, which will require shareholder approval, at the appropriate time and as our cash position allows.

We wish to record two items. On 24th May 2003, our inaugural Chairman Neil Cherry died from the disease that he had so valiantly fought for the previous year. We wish to acknowledge his very vital contribution to Windflow over its formative years. An obituary for Neil appears elsewhere in this report. Secondly we wish to convey our thanks to the endless efforts and dedication of our staff and especially Geoff Henderson, Warwick Payne (Senior Mechanical Engineer), Wernher Roding (Electrical Engineer) and Alan White (Procurement Manager).

DIRECTORY

The Directors of Windflow Technology Ltd are:

Barrie Leay, Chairman of Directors
PO Box 45, Havelock Marlborough

Barrie Leay was until mid-1997 Executive Director of the Electricity Supply Association of New Zealand. He is currently Chairman of Ecodyne Limited, a company established to develop environmentally benign forms of power generation, Managing Director of e-services Limited, an Internet company involved in energy networks and energy efficiency, founder Chairman of the APEC Energy Business Network in the Asia Pacific region. Barrie has been a leading figure in the reforms of electricity industries and the establishment of competitive electricity markets in New Zealand and other APEC economies.



Barrie took over as Chairman of Windflow in June 2003 following the unfortunate death of Neil Cherry from motor neuron disease.



Vicki Buck, Director and Deputy Chairman
14 Jane Deans Close, Christchurch

Vicki Buck is the Development Manager at Christchurch Polytechnic Institute of Technology. She has an M.A. (Hons) degree and was Mayor of Christchurch from 1989 until she stood down in 1998. Since then she has been heavily involved in establishing two new state schools in Christchurch. She is also a director of Jade Stadium Ltd and Brylton Software.

Geoff Henderson, Director and Chief Executive Officer
12 Scotston Avenue, Christchurch

A registered mechanical engineer, Geoff Henderson has been involved in wind power engineering for twenty years, including seven years in California and England working at the forefront of wind power technology. During that time he invented the torque limiting gearbox (TLG) system which has been patented in New Zealand, Australia, and the USA. In 1994 he received the Communications Award from the Institution of Professional Engineers (IPENZ) for his contribution to the engineering profession as a proponent of wind power. Geoff is past-chairman of the Canterbury Branch of IPENZ. He is also a director of Aeolian Property Company Ltd, the New Zealand Wind Energy Association and Windflow's non-trading subsidiary companies, Wind Torque Ltd, New Zealand Wind Farms Ltd, and Pacific Wind Farms Ltd.



Heugh Kelly, Director
Shegadeens Road, R.D. 1, Wellsford

Heugh Kelly is a barrister and solicitor with over 15 years experience of commercial law. Educated at Auckland Grammar School and the University of Auckland, he has been in practice on his own account since 1984. He is a director of the Environmental Defence Society which is a position he has held since 1981 and was a member of the legal committee of the Maruia Society for some years.



Keith McConnell, Director
10 Cleveland Rd, Auckland

Keith has served as Chief Executive Officer of a number of commercial entities over the last 15 years. These include John Edmond Ltd, Donaghy Downs Pty Ltd, The Power Company Ltd, United Electricity Ltd, Paykel Ltd and most recently Fruehauf Pacific Ltd. His involvement with wind energy first arose during his tenure with The Power Company Ltd where he sponsored a wind testing programme at three sites in Southland. Keith has also been involved in several successful start-up ventures (eg Metering Systems Ltd and Supply Solutions) and has a good understanding of the issues involved in such ventures.

Keith is presently acting in a part time executive role within Windflow by assisting with many of the commercial matters.

Obituary: Dr Neil Cherry, 1946-2003

Neil Cherry was Associate Professor in Environmental Health at Lincoln University and a Canterbury Regional Councillor. He was involved in wind energy since the 1970's. During this time he led New Zealand's wind energy resource assessment programmes and carried out the wind energy survey of the world with Battelle Pacific Northwest Laboratories for the US Department of Energy. In the 2002 New Year's Honours List, Neil was made an Officer of the New Zealand Order of Merit for his services to science, education and community.

Neil was never a man to shirk from standing up for something he believed in. That takes courage. Neil's gentle exterior belied the great courage of the man. He had a great intellect. He had a great social conscience. His love for people came through in his gentle, mild manner. But like Clark Kent, he hid a man of steel under that gentle exterior.



Neil stood up for something he believed in by becoming the inaugural Chairman of Windflow Technology Ltd. He continued in that position until his death on May 24th, 2003. In his honour the prototype Windflow 500 at Gebbies Pass was named simply "Neil".

Shareholders who wish to learn more about this outstanding life are encouraged to visit:

<http://www.neilcherry.com/profile.php>
http://www.nzine.co.nz/neilcherry_life_story.html

Staff

Mechanical Engineer	Warwick Payne
Mechanical Engineer	Francis Jackson
Mechanical Engineer	Gavin Williams
Electrical Engineer	Wernher Roding
Marketing Manager	Chris Freear
Office Manager	Terry Moon
Procurement Manager	Alan White

Solicitor

Guy Mortlock
Hensley Mortlock
137 Armagh St
Christchurch

Accountant

Mike Keyse
HFK Ltd
12 Main North Road
Christchurch

Auditor

Gordon Hansen
Goldsmith Fox
236 Armagh St
Christchurch

Share Registry

BK Registries Ltd
138 Tancred St
Ashburton

Bankers

National Bank of NZ Ltd
164 Hereford St
Christchurch

Insurance Brokers

Heath Lambert New Zealand Limited
79-83 Hereford St
Christchurch

Principal Suppliers

Blades	Wind Blades Ltd of Auckland
Gearbox	AH Gears Ltd of Auckland
Hub	Farra Bros Ltd of Dunedin
Electrical Control	Bremca Ltd of Christchurch
Generator	Newage International Ltd of UK (Sydney office)
Pallet	Lyttelton Engineering Ltd of Christchurch
Tower/Foundations	Smith Crane and Construction of Christchurch
Planning Services	Connell Wagner of Christchurch

SHAREHOLDER INFORMATION

TOP TWENTY SHAREHOLDERS			
Shareholder	Address	Shares	%
Geoff Henderson	Christchurch	386,237	7.4%
Jenny Henderson	Christchurch	336,072	6.4%
Mark Mellsop	Franz Josef	247,525	4.7%
Delane Wycoff	Nebraska, USA	237,440	4.5%
Paul Simmons & Esther Simmons	Christchurch	169,382	3.2%
Bremca Industries Ltd	Christchurch	100,000	1.9%
Reda Holdings Ltd	Switzerland	96,651	1.8%
Vic Holmes & Christine Holmes	South Auckland	70,370	1.3%
Jeanette Fitzsimons	Thames	50,000	0.9%
Andrew Rochford & Sabina Rochford	Warkworth	50,000	0.9%
Esther Simmons	Christchurch	50,000	0.9%
Simon Stockdale	Auckland	48,000	0.9%
Caroline Stockdale	Auckland	40,000	0.7%
Aeolian Property Company Ltd	Christchurch	40,000	0.7%
Sheila Kolstad	Christchurch	40,000	0.7%
Geoffrey Robinson & Reihana Robinson	Coromandel	40,000	0.7%
Armitage Consultancy Limited	Christchurch	35,460	0.6%
Francis Henderson	NSW, Australia	35,238	0.6%
Barrie Leay	Wellington	32,000	0.6%
Thomas Buxton	Christchurch	32,000	0.6%
TOTALS		2,136,375	40.0%

STATUTORY INFORMATION

Employee Remuneration

For the period to 30 June 2003, there were no employees who earned more than \$100,000. The remuneration paid to Geoff Henderson is reported under the heading Director Remuneration.

Directors Remuneration

For the period to 30 June 2003, Directors received the following remuneration.

Name	Directors Fees	Salary	Other Fees
Barrie Leay	\$15,000		
Vicki Buck	\$15,000		
Geoff Henderson	\$15,000	\$80,000	
Heugh Kelly	\$15,000		
Keith McConnell	\$15,000		\$11,531

Directors Shareholdings (31/10/2003)

Director	Shares Held		
	Beneficially	Non-Beneficially	Total Holding
Barrie Leay	32,000		32,000
Vicki Buck	4,000		4,000
Geoff Henderson	386,237		386,237
Heugh Kelly	22,500		22,500
Keith McConnell	23,500		23,500

Directors Interests in entities with which the Company has, or may in future have, transactions

Director	Directorship or shareholding (at 4/11/2003)
Barrie Leay	
Vicki Buck	
Geoff Henderson	Henderson Inventions (TLG Patent) Wind Torque Ltd Aeolian Property Company Ltd New Zealand Wind Farms Ltd Pacific Wind Farms Ltd
Heugh Kelly	
Keith McConnell	

Directors Indemnity and Insurance

The Company has Directors & Officers Liability Insurance to the sum of \$2,000,000 in the aggregate.

Subsidiaries and Directors Thereof

Wind Torque Limited is a 100% subsidiary and the sole Director is Geoff Henderson.

Windflow has incorporated two subsidiaries which are presently non-trading. They are New Zealand Windfarms Limited and Pacific Windfarms Limited. The sole Director of both of these subsidiaries is Geoff Henderson.

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