



from **STRENGTH** to

STRENGTH



WINDFLOW TECHNOLOGY LIMITED ANNUAL REPORT 2007





The Directors of Windflow Technology are delighted to be able to report to you on a highly successful 2006-07 financial year in which we have continued to move forward with commercialising the Windflow 500 turbine. During the year the turbine has moved from a 'prototype' to a fully commercial product – five of the turbines now grace the skyline as part of the Te Rere Hau wind farm in the Tararuas.

As we reported to you in our Half-Year Report, the Te Rere Hau wind farm was opened by the Prime Minister on September 15, 2006. Since then the Te Rere Hau Joint Venture (TRH-JV), consisting of NZ Windfarms, NP Power, and Babcock & Brown Windpower, has confirmed orders for a further 28 turbines which we will deliver during 2008.

Our focus therefore is increasingly on establishing quantity production. We have leased premises at Mandeville St in Riccarton which includes factory space large enough to assemble between 60 and 200 nacelles annually, along with good quality office space that is about twice the size of our current premises and will allow us to house all our Christchurch based staff in the one place (we have outgrown our current premises in Manchester Street and will be moving everyone to Mandeville Street over the next two months). Six new positions have been added to the team over the year and a new Production Manager (Jules Ganley) and a new Purchasing Officer (Mike Palmer) have joined the team to replace Hugh Aston and Alan White respectively.

TURBINE PERFORMANCE

In their first nine months of operation the five turbines at Te Rere Hau have performed exceptionally well. Availability averaged 97% during this time, which exceeded expectations. With any new design being 'tested' in the field it is to be expected that minor issues will emerge. Indeed continuous product development is not only to be expected but is desirable with any technological product. Thus the first nine months were something of a dream run.

However, in June one of these 'in the field' issues did emerge. In one of the five turbines a bolted joint inside the gearbox failed and this resulted in a small amount of internal damage. The reason for the problem with the bolted joint was the loadings imposed on it when the rotor was 'parked' or stationary in high winds. Once the exact cause of the failure was understood it was decided, as a precaution, to upgrade all the gearboxes to a stronger joint design. This involved disassembling the gearboxes completely (in four out of five cases they were in pristine condition). Fortunately a new design had already been developed and tested at Gebbies Pass to improve one of the factors which contributed to this failure. Thus we can be very confident that the issue will not arise with future turbines. We expect to have all the upgrades finished by early October.

Windflow 500 Prototype at Gebbies Pass.



INTERNATIONAL ELECTROTECHNICAL COMMISSION (IEC) CERTIFICATION

We are working to achieve international certification of our Windflow 500 turbine to the IEC Standard WT-01:2002. This certification is essential to both expanding our domestic market and exporting. This is an extensive exercise that has not been undertaken previously in New Zealand. As part of the exercise we are seeking certification to a new edition of the Design Load standard IEC 61400-1, Edition 3:2005. We understand that this new standard is proving difficult to meet for Class 1A sites (the windiest and most turbulent) and that few if any of the other wind turbine manufacturers have been able to meet this standard yet. There are four main parts to the IEC certification.

ISO 9001 Certification

The Lloyds Register Quality Assurance assessor will visit our new assembly factory once we are manufacturing the second batch of turbines for TRH. This should be his final assessment visit.

Type Testing

The University of Canterbury is continuing to test the prototype unit at Gebbies Pass near Christchurch. All we require to complete the test regime are some strong northerly winds. In addition blade fatigue testing is being undertaken at IRL's laboratories in Parnell, Auckland.

Design Evaluation

The Company continues to work closely with Garrad-Hassan Partners to model the unique features of the Windflow 500 turbine on their Bladed software. One of our mechanical engineers, Dr Jamie Wallace, visited England in March/April for 2 weeks intensive training in the use of the Bladed software package.

The Company's design team will use information from Bladed to finalise the existing calculations for design evaluation by the certification body, Lloyds Register.

Manufacturing Evaluation

Our Production team has been auditing suppliers of key components so that we can be assured that they meet our manufacturing plan and quality assurance requirements.

Subject to the vagaries of wind conditions at Gebbies Pass, we should have completed all work for IEC Certification by late 2007 or early 2008. This is later than our original estimates for the completion of this work, however, limited resources, and the issues outlined above, have made this delay unavoidable.

MARKET DEVELOPMENTS

Geoff Henderson, our Chief Executive Officer, visited the USA in June (this followed on from a visit he made in September 2006). This time he was accompanied by the Sales and Marketing team. They visited a prospective site for a wind farm in Hawaii and also attended the American Wind Energy Association Conference in Los Angeles. The Windflow exhibit attracted a lot of attention and resulted in several promising contacts.

The Hawaii visit resulted in a follow up visit to New Zealand by the principals of Na Makani, the developer of the proposed wind farm. This visit resulted in the signing of a Memorandum of Understanding, which is non-binding at this stage. If it progresses to a binding agreement it will involve Na Makani purchasing two turbines for installation in 2008, with more to follow. In addition Windflow has submitted a proposal to erect two turbines in the mainland USA in late 2008. The outcome of this proposal should be known in the third quarter of 2007.

In addition to the very likely possibility of export markets, Windflow has had interest in its turbines from New Zealand developers and is actively pursuing a number of opportunities in this area. Windflow has also had interest from a number of parties in carrying out wind monitoring on sites around the country; the purpose of the monitoring is to enable the owners of the sites to assess their suitability for wind farming.

RESEARCH

Windflow has identified a number of areas in which it would like to carry out a research and development programme. These include variants of the Windflow 500 turbine suitable for other markets such as the United States and the Pacific; possible improvements to the design of turbine components; the possible refit of existing turbines with Windflow TLG gearboxes; and the erection of demonstration turbines.

A draft budget has been prepared for this work and as discussed below the Company is currently planning a rights issue to fund these developments. The total investment in research and development is expected to be in the region of \$6 million.

FINANCIAL RESULTS

The loss of \$3.3 million for the period reflects two main factors:

- the sale to TRH-JV of five turbines (batch 1) at a loss (as one would expect at the early stages of ramping up production and absorbing the overhead costs of set up); and
- our ongoing commitment to achieve IEC certification.

The financial impact of both these factors was anticipated and represents the investment we need to make in both improving and proving that the Windflow 500 turbine will run perfectly in the severe wind conditions it has been designed to meet.

Furthermore the revenue does not include any significant income from the 28 turbines the order for which has been confirmed by TRH-JV as batches 2a and 2b. While a 30% deposit has been received, this is treated as a prepayment and thus not shown as revenue until the stage in the project when we invoice for the completion of specific components and milestones.

The Company is on track to achieve profitability as the remaining turbines already ordered, and expected to be ordered, are produced for TRH-JV. It is prudent however to note several risk factors:

- As in any rapid growth phase, careful management of finances is necessary to avoid short-term cashflow issues. As set out below the Company is currently planning a rights issue which will, amongst other things, provide additional working capital.
- Component prices could be adversely affected by raw material costs and/or changing market conditions for wind turbine components. Our New Zealand manufacturing operation insulates us to some extent from these risks, but such adverse movements could still undermine our ability to achieve adequate profitability within the terms of the TRH-JV sale and purchase agreement.
- The IEC Certification process could be delayed by unforeseen technical or administrative issues, which could cause TRH-JV to delay confirmation of the last 64 turbines (batches 3 and 4), as they are entitled to under the SPA. The directors are however instigating all possible actions to prevent this from occurring.



16 metre long Windflow 500 blade undergoing fatigue testing at Industrial Research Limited as part of the IEC Certification Process.

DIRECTORS' ANNUAL REVIEW



Stage 1 Te Rere Hau nacelles ready for delivery.

RIGHTS ISSUE

Late in August the Directors announced their intention to make a renounceable rights issue to raise capital to fund the continued growth of the Company. Details of the proposed rights issue (if any) will be advised as soon as final decisions are made. On present timing the prospectus for the proposed capital raising would be forwarded to shareholders in October and the rights trading period and the capital raising would close in November. The Directors are proposing a renounceable rights issue structure for the capital raising as that would give existing shareholders the first opportunity to invest further in the Company or should they not be in a position to do so, the option to sell their rights.

Apart from providing increased working capital, it is intended that a major part of the funds will be applied to three main turbine developments:

1. A 60 Hz model for use in the USA
2. A low variable speed model for use in lower wind speed areas
3. A wind-diesel capability for use in non-grid attached areas

WIND BLADES LTD

Windflow has an agreement with Tait-Brooking Contracting Limited, the other shareholder of its 50% subsidiary, Wind Blades Ltd, whereby it will acquire its shares and thereby make Wind Blades Ltd a wholly owned subsidiary. Peter Brooking and Bruce Tait, whose interests own the shares, have entered into a contract to remain as employees. This will be subject to approval at the Annual Meeting. The wind blade operation is presently producing one blade every four working days from its premises in Pakuranga. A move to a larger factory is being contemplated. This will see production doubled. Wind Blades Ltd currently employs ten staff.



Windflow 500 nacelles being transported to Te Rere Hau.

TO SUM UP

Our immediate plan going forward is:

- to move into our new premises and ramp up production to at least five turbines per month;
- to finance our research and development programme and at the same time raise additional working capital to cover short-term production cashflows;
- to continue monitoring and documentation of the Windflow 500 for certification purposes (to IEC WT 01 Class 1A); and
- to expand into further markets both domestically and internationally.

In summary Windflow is moving forward on a number of fronts simultaneously. We are expanding production, carrying out research and development and finalising the IEC Certification of the Windflow 500. This is an ambitious work programme, but it is founded on a fundamental design which is proving itself in some of the most arduous wind conditions in the world. With the move to our new premises and a good deal of forward planning on a range of fronts, we are moving ahead confidently and looking forward to an exciting future.

This report is dated 18 September 2007 and is signed on behalf of the board of Windflow Technology Limited by:

Barrie Leay
Director

Keith McConnell
Director



Nacelle and rotor lift at Te Rere Hau.

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View from the top: Te Rere Hau windfarm.



Goldsmith Fox PKF
Chartered Accountants



Audit Report
To the Shareholders of Windflow Technology Limited

We have audited the financial report on pages 8 to 23. The financial report provides information about the past financial performance and financial position of the company and group as at 30 June 2007. This information is stated in accordance with the accounting policies set out on pages 11 to 12.

Directors' Responsibilities

The Board of Directors is 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 2007 and the results of operations and cash flows for the year ended on that date.

Auditor's Responsibilities

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

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 misreport, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 8 to 23
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the financial position of the company and group as at 30 June 2007 and the results of operations and cash flows for the year ended on that date.

Our audit was completed on 28 August 2007 and our unqualified opinion is expressed as at that date.

Goldsmith Fox PKF

Christchurch
New Zealand

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

 For the year ended
30th June 2007

	Notes	This Year		Last Year	
		Group \$	Parent \$	Group \$	Parent \$
Operating Revenue	1	2,411,390	2,017,862	1,869,869	1,363,070
Other Revenue		399,967	402,023	321,955	330,823
		2,811,357	2,419,885	2,191,824	1,693,893
Operating Expenses	2	6,125,738	5,672,583	4,303,096	3,775,171
		(3,314,381)	(3,252,698)	(2,111,272)	(2,081,278)
Share of Associates Deficits	3	-	-	104,206	-
Net Deficit		(3,314,381)	(3,252,698)	(2,215,478)	(2,081,278)
Net Deficit comprises:					
Parent Interests		(3,283,540)	(3,252,698)	(2,200,481)	(2,081,278)
Minority Interests		(30,841)	-	(14,997)	-
Net Deficit		(3,314,381)	(3,252,698)	(2,215,478)	(2,081,278)
Earnings per Share	4	(0.48)		(0.33)	

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

 For the year ended
30th June 2007

	Notes	This Year		Last Year	
		Group \$	Parent \$	Group \$	Parent \$
Equity at Beginning of Year		6,006,854	6,303,538	6,906,575	7,286,639
<i>Plus</i>					
Inter company Amortisation		-	-	217,580	-
Adjustment of Associate Equity at beginning of year due to new issue		222,084	-	-	-
Adjustment of Associate Equity Opening Balance due to losses		950			
		6,229,888	6,303,538	7,124,155	7,286,639
<i>Less</i>					
Net Deficit comprising					
Parent interests		(3,283,540)	(3,252,698)	(2,200,481)	(2,081,278)
Minority Interests		(30,841)	-	(14,997)	-
Total Net Deficit		(3,314,381)	(3,252,698)	(2,215,478)	(2,081,278)
Contributions from Owners					
Ordinary Shares Issued during the Year		67,958	67,958	9,963	9,963
Revaluation of shares NZ Windfarms Ltd		1,665,300	1,665,300	1,088,214	1,088,214
Equity at End of Year		4,648,765	4,784,098	6,006,854	6,303,538
Equity at end of year comprises:					
Parent interests		4,705,244	4,784,098	6,032,490	6,303,538
Minority Interests		(56,479)	-	(25,636)	-
		4,648,765	4,784,098	6,006,854	6,303,538

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at the 30th June 2007

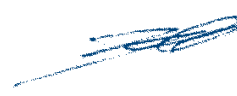
	Notes	This Year		Last Year	
		Group \$	Parent \$	Group \$	Parent \$
Current Assets	12				
Cash on Hand and at Bank		1,002,090	953,824	103,245	60,192
Term Deposits		1,159,281	1,159,281	1,492,557	1,492,557
Interest Accrued		1,059	1,059	5,985	5,985
Accounts Receivable		3,785,201	3,783,688	564,729	478,843
Prepayments and Accruals		55,250	55,250	21,786	21,786
GST Refund		-	-	88,605	88,605
Tax Refund	5	52,624	52,190	29,168	28,856
Retentions Sale of Turbines		315,000	315,000	-	-
Stock Prepaid		1,333,650	1,333,650	-	-
Work in Progress and Stock on Hand		416,141	255,110	1,190,315	1,190,315
Total Current Assets		8,120,296	7,909,052	3,496,390	3,367,139
Non Current Assets					
Fixed Assets	13	882,456	822,296	943,262	886,472
Intangible Assets	14	158,611	158,611	233,648	233,648
Advances to Equity Investments					
Advance to NZ Windfarms Limited	3	-	-	838,555	838,555
Advance to Windpower Otago Limited	3	25,902	25,902	23,827	24,777
Advance to Windpower Maungatua Ltd	3	1,000	1,000	-	-
Advances to Subsidiary					
Advance to Wind Blades Limited		-	544,447	-	208,841
Shares - NZ Windfarms Limited	3	3,600,000	3,600,000	1,712,617	1,934,700
Shares - Wind Blades Limited		-	22,375	-	22,375
Shares - Associate Companies		-	-	-	-
Total Non Current Assets		4,667,969	5,174,631	3,751,909	4,149,368
Total Assets		12,788,265	13,083,683	7,248,299	7,516,507
Shareholders' Equity					
Contributed Capital	7	12,360,950	12,360,950	12,292,992	12,292,992
Retained Earnings Account	8	(10,409,220)	(10,330,366)	(7,348,715)	(7,077,668)
		1,951,730	2,030,584	4,944,277	5,215,324
<i>Minority Interest</i>					
Contributed Capital		22,375	-	22,375	-
Retained Earnings Account		(78,854)	-	(48,013)	-
		(56,479)	-	(25,638)	-
Revaluation Reserve	9	2,753,514	2,753,514	1,088,214	1,088,214
Total Shareholders' Equity		4,648,765	4,784,098	6,006,853	6,303,538
Current Liabilities	11				
Progress Payments Held		6,552,000	6,552,000	338,000	338,000
Accounts Payable		668,516	859,358	903,446	874,969
GST Payable		360,317	329,560	-	-
Provisions		558,667	558,667	-	-
Total Current Liabilities		8,139,500	8,299,585	1,241,446	1,212,969
Total Equity and Liabilities		12,788,265	13,083,683	7,248,299	7,516,507

Signed for and on behalf of the Board

Dated 28th August 2007



 Peter Barrie Leay
Director



 Keith James McConnell
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

 For the year ended
30th June 2007

 For the year ended 30th June 2007

	Notes	This Year		Last Year	
		Group	Parent	Group	Parent
		\$	\$	\$	\$
Cash Flows from operating activities	20				
<i>Cash was provided from:</i>					
Receipts from Outwork		-	-	443,721	-
Receipts from Consulting Fees		117,148	117,148	7,946	7,946
Sales (Part) of Turbines		5,546,109	5,101,447	1,323,000	1,323,000
Foreign Currency Gains		-	-	37,770	37,770
Funding Received		13,660	-	69,233	69,233
Other Income		255,592	255,297	56,022	55,689
Interest Received		214,510	213,532	218,635	217,835
Net GST Inflows		28,675	22,620	2,467	-
		6,175,694	5,710,044	2,158,794	1,711,473
<i>Cash was disbursed to:</i>					
Payments to suppliers		4,090,699	3,667,999	2,125,323	1,843,231
Payments to employees		1,320,153	978,559	879,065	654,000
Foreign Currency Losses		50,573	50,573	-	-
Income Tax Paid		123	-	312	-
Instalment Payments for Wind Blades		-	-	-	-
Interest paid		20,389	70	6,610	128
Net GST		-	-	184,648	184,648
		5,481,937	4,697,201	3,195,958	2,682,007
Net Cash Flows from operating activities		693,757	1,012,843	(1,037,164)	(970,534)
Cash flows from investing activities					
<i>Cash was provided from:</i>					
Sale of Fixed Assets		-	-	3,390	3,390
Sale of Intangible Assets		-	-	600,305	600,305
Sale of Resource Consent		-	-	246,183	246,183
Disbursed from Term Deposit Accounts		333,276	333,276	356,466	356,466
		333,276	333,276	1,206,344	1,206,344
<i>Cash was disbursed to:</i>					
Acquisition of Intangible Assets		-	-	-	-
Purchase of Fixed Assets		195,146	183,839	137,236	132,365
Purchase of Shares NZ Windfarms Ltd		-	-	846,488	-
Disbursed to Term Deposit Accounts		-	-	1,855,198	1,855,198
		195,146	183,839	2,838,922	1,987,563
Net Cash Flows from investing activities		138,130	149,437	(1,632,578)	(781,219)
Cash flows from financing activities					
<i>Cash was provided from:</i>					
Issue of Shares		67,958	67,958	9,963	9,963
Advance from Joint Venture Company		-	-	-	-
Advance from Subsidiary		-	-	-	-
		67,958	67,958	9,963	9,963
<i>Cash was disbursed to:</i>					
Prospectus Costs		-	-	-	-
Opening Balance N Z Windfarms Ltd		-	-	4,793	-
Advance to Subsidiary		-	335,606	-	72,751
Advance to Equity Partners		1,000	1,000	405,500	1,251,988
		1,000	336,606	410,293	1,324,739
Net Cash Flows from financing activities		66,958	(268,648)	(400,330)	(1,314,776)
Net Increase (Decrease) in cash held		898,845	893,632	(3,070,072)	(3,066,529)
Cash at beginning of year		103,245	60,192	3,173,317	3,126,721
Cash at end of year		1,002,090	953,824	103,245	60,192

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.

MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the group, except for investments in listed companies which are at market value.

NATURE OF BUSINESS

Wind turbine development and manufacture.

The Company currently 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 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 subsidiaries.

All significant inter company transactions are eliminated on consolidation.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. The subsidiaries are combined using the purchase method.

The associated companies are reflected in the consolidated financial statements using the equity method whereby the group's share of the retained deficit of these associates are included in consolidated earnings and their share of post acquisition increases and decreases in net assets in the consolidated Statement of Financial Position.

Revenue Recognition

Revenues are recognised when services are performed.

Investment Revenue

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

Stock on Hand

Stock of component parts has been valued at lower of cost or market value.

Work in Progress

Work in Progress has been valued at the lower of cost or net realisable value.

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.

Financial Instruments

Financial instruments recognised within the Consolidated Statement of Financial Position include cash and bank deposits, receivables and payables. The valuation and recognition method adopted for each of these instruments is disclosed in the policy statement associated with each particular item.

Listed Investments

Shares in listed companies that are not consolidated are initially recorded at cost and subsequently revalued to market bid price. Any revaluation surplus arising on the revaluation of an asset is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the asset is recognised in the income statement in the period it arises. Revaluation surpluses which reverse previous revaluation deficits recorded in the income statement are recognised as revenue in the income statement.

Taxation

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

Any income tax expenses charged to the statement of financial performance include 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.

Valuation of Assets**Receivables**

Receivables are stated at their estimated realisable value.

Fixed Assets

The Company has the following classes of fixed assets:

Wind Turbine and Associated Assets
Motor Vehicles
Leasehold Improvements
Office Equipment

All fixed assets are recorded at cost.

Depreciation is provided 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 is charged on partly constructed assets.

Major depreciation periods are:

Wind Turbine and Associated Assets	8.0 to 10.0 years
[Commenced on completion, 1 st July 2003]	
Motor Vehicles	4.6 years
Leasehold Improvements	8.3 years
Office Equipment	2.8 to 8.3 years
Blade Moulds	1 year

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

The TLG patent licence was initially valued at fair value and has been amortised to the Statement of Financial Performance on a straight line basis over the estimated useful life, this has been determined to be 8 years and the write off to be one eighth, per financial period

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. [Refer Note 10].

Foreign Currency Transactions

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

Provisions

On each turbine sold to date, the Company gives a 5 year warranty cover. The Directors and Management have assessed, and made provision for, the likely cost of expenditure arising from the warranty. Various suppliers will also give warranties to the Company, which may offset the Company's net cost for any warranty claims. At the end of each year, the warranty record of each turbine is reviewed and the adequacy of the amounts provided for the remainder of the warranty period are re assessed. The provision will be increased or decreased depending on each individual turbine's history and expected future warranty claims. Any warranty claims during a period are charged to warranty expense and any warranty received from suppliers is credited to warranty monies received.

Changes in Accounting Policies

During the period the Company adopted its policy on Listed Investments and Provisions as itemised above.

Apart from the above adoption there have been no other changes in accounting policies during the year.

	30 th June 2007		30 th June 2006	
	Group \$	Parent \$	Group \$	Parent \$
1 Operating Revenue				
Operating Revenue:				
Consultancy Fees	48,872	48,872	7,381	7,381
Sales and Benefits (Other)	451,119	57,591	562,488	55,689
Sales of Turbines (in full and in part)	1,911,399	1,911,399	1,300,000	1,300,000
	2,411,390	2,017,862	1,869,869	1,363,070
Other Revenue:				
Foreign Currency Gains (Losses)	(50,573)	(50,573)	37,770	37,770
Grants Received	201,517	201,517	69,233	69,233
Interest Received	192,595	208,606	214,952	223,820
Sundry Income	56,428	42,473	-	-
	399,967	402,023	321,955	330,823
Total Revenue	2,811,357	2,419,885	2,191,824	1,693,893

2 Operating Expenses

Operating Expenses include:

Amortisation of Licences	75,038	75,038	75,038	75,038
Research and Development Costs	256,875	256,875	147,182	147,182
Audit Fees	13,208	13,208	9,825	9,825
Directors' Fees	99,000	99,000	91,500	91,500
Interest – Bank overdraft	70	70	5	1
Rent and Leases	115,529	50,166	82,797	25,297

3 Investments in Associates**Windpower Otago Limited**

At the 30th June 2007 the Company held a 20.00% shareholding in Windpower Otago Limited.

The principal activity of that company is the development of wind farms, balance date 30th June

	30 th June 2007 \$	30 th June 2006 \$
Results of Associate		
<i>Statement of Financial Position</i>		
Share of Current Assets	281	254
Share of Non Current Assets	13,022	12,672
Share of Current Liability	-	-
Share of Non Current Liabilities	(14,101)	(13,876)
Share of Equity	(1,229)	(950)
<i>Statement of Financial Performance</i>		
Share of Net Deficit	(280)	(717)
<i>Details of Amounts recognised are:</i>		
Advances to Associated Company	25,902	24,777
Less Share of Net Deficit	1,229	950
	24,673	23,827

The equity method of accounting should be discontinued when the effect of equity accounting losses causes the carrying amount of the investment to fall below zero. Accordingly, the minor loss incurred by Windpower Otago Limited has not been equity accounted.

Windpower Maungatua Limited

At the 30th June 2007 the Company held a 16.66% (30th June 2006 20%) shareholding in Windpower Maungatua Limited. The principal activity of that company is the development of wind farms, balance date 30th June.

NZ Windfarms Limited

At the 30th June 2006 the Company held a 42.99% shareholding in NZ Windfarms Limited, a wind farm development company, and for that year ended that company was equity accounted within the financial statements of Windflow Technology Limited. During the current financial year NZ Windfarms Limited completed a further share issue and as a result the percentage shareholding held by Windflow Technology Limited decreased from 42.9% to 3.82%.

This investment is no longer one over which the Company has significant influence and therefore NZ Windfarms Limited has not been equity accounted for the year ended 30th June 2007.

	30 th June 2007 Group \$		30 th June 2006 Group \$	
4 Earnings per Share				
The earnings per share are calculated using the net results attributable to shareholders as the numerator.				
Earnings (loss) attributable to the Parent interest	(3,283,540)		(2,200,481)	
Shares on Issue	6,721,867		6,679,703	
Earnings per share	(0.48)		(0.33)	
	30 th June 2007 Group Parent \$ \$		30 th June 2006 Group Parent \$ \$	
5 Taxation				
Operating Deficit	3,314,381	3,252,698	2,200,481	2,081,278
Prima facie taxation expense at 33%	-	-	-	-
Less permanent and temporary differences:				
Amortisation of Intangibles	75,038	75,038	75,038	75,038
Non Deductible Entertainment & Legal Fees	2,046	2,046	14,542	14,542
Imputation credits attached dividends received	145	-	-	-
Provisions	558,667	558,667	-	-
	635,896	635,751	89,580	89,580
	2,678,485	2,616,947	2,110,901	1,991,698
Losses brought forward	6,185,306	6,031,668	4,074,405	4,039,970
Adjustment for Change in Associates	57,663	-	-	-
	6,127,643	6,031,668	4,074,405	4,039,970
Deficit and losses carried forward for taxation purposes	8,806,128	8,648,615	6,185,306	6,031,668
There is no income tax payable for the period.				
RWT on Interest received to be refunded	24,359	23,925	29,168	28,856
Taxation refunds due prior years	28,265	28,265	-	-
	52,624	52,190	29,168	28,856
Deferred tax liability of \$184,360 has not been provided for as at the 30 th June 2007 (30 th June 2006 Nil).				
6 Imputation Credit Account				
Balance at beginning of period	848	592	1,524	1,356
Income Tax refunded during the year	(848)	(592)	(1,524)	(1,356)
	-	-	-	-
Income tax payments during the year:				
Imputation Credits attached from dividends received	145	-	-	-
Resident Withholding Tax paid	24,293	23,925	848	592
Balance at end of period	24,438	23,925	848	592
Imputation Credit Account balances to the 31 st March.				

	30 th June 2007		30 th June 2006	
	Group \$	Parent \$	Group \$	Parent \$
7 Share Capital				
Balance at beginning of period	12,292,992	12,292,992	12,283,029	12,283,029
Ordinary Shares Issued	67,958	67,958	9,963	9,963
Total Share Capital	12,360,950	12,360,950	12,292,992	12,292,992
Number of shares on issue	6,721,867	6,721,867	6,679,703	6,679,703
<p>Ordinary shares issued were a result of the rights issue as per the Prospectus registered 28th April 2005, the Prospectus registered on the 28th July 2003 and the acceptance of options in January 2006 as per the conditions of the Share Option Plan.</p> <p>All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.</p>				
8 Retained Earnings Account				
Balance at beginning of the year	(7,348,715)	(7,077,668)	(5,365,813)	(4,996,390)
Adjustment of Associate Equity at beginning of year due to new issue	222,085	-	-	-
Adjustment of Associate Equity at beginning of year due to minor losses	950	-	-	-
	223,035	-	-	-
	(7,125,680)	(7,077,668)	(5,365,813)	(4,996,390)
Net Deficit	(3,283,540)	(3,252,698)	(2,200,482)	(1,772,690)
Inter company Amortisation	-	-	217,580	-
Balance at end of year	(10,409,220)	(10,330,366)	(7,348,715)	(7,077,668)
9 Revaluation Reserve				
<p>The 3,000,000 shares have been revalued to the market price of \$1.20 per share, a total as at the 30th June 2007 of \$3,600,000. The revaluation closing balance equals this amount of \$3,600,000 less the original contribution of \$846,486.</p>				
Opening Balance	1,088,214	1,088,214	-	-
Revaluation of shares NZ Windfarms Limited	1,665,300	1,665,300	1,088,214	1,088,214
Closing Balance	2,753,514	2,753,514	1,088,214	1,088,214

10 Share Option Plans

- a) The Company entered into a share option plan with Mr G Henderson, the Chief Executive Officer and a Director on the 20th January 2002.

This put into effect the terms of the Licence Agreement as outlined in the prospectus, dated 9th July 2001, and as summarised below.

The agreement transferring the TLG Licence from Wind Torque Limited to Windflow Technology Limited provided that a royalty is payable to Mr G Henderson for each wind turbine that is sold or retained by the Company (other than any turbines retained as demonstration turbines). 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 so that if exercised do not represent more than either 1,000,000 shares in Windflow Technology Limited or more than 20% of the issued share capital of Windflow Technology Limited.

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.

In accordance with Clause 2.4.1 of the Licence Agreement the directors exercised their right to set the share option price for each new share to be market price less one third. This was on the grounds that the default price of \$1.00 per share was not fair and reasonable to existing shareholders. This share option was exercised on the 31st July 2006 being \$10,000 for each of the five turbines sold divided by the determined value of \$1.48 per share. A total of 33,784 fully paid ordinary shares were issued to Mr Henderson in accordance with this calculation.

The following table shows the royalty payments that have been made to date to Mr G Henderson in terms of the share option plan dated 20th January 2002.

	Royalty Paid
Previous Years	\$50,000
Year ended 30 June 2007	\$280,000

- b) 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.

As at the 30th June 2007 59,215 options had been issued to employees (30th June 2006 38,123 options).

11 Current Liabilities

Current liabilities consist of the following which are unpaid as at the period end.

	30 th June 2007		30 th June 2006	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
Progress Payments Held	6,552,000	6,552,000	338,000	338,000
Accounts Payable				
Trade Payables	568,550	603,810	841,345	812,868
Trade Payables – Asset Purchases	6,835	173,309	7,482	7,482
Employee Entitlements	93,131	82,239	54,619	54,619
	668,516	859,358	903,446	874,969
GST Payable	360,317	329,560	-	-
Provisions				
Provision for Deferred Maintenance	27,000	27,000	-	-
Provision for Warranty Expenditure	531,667	531,667	-	-
	558,667	558,667	-	-
Total Current Liabilities	8,139,500	8,299,585	1,241,446	1,212,969

	30 th June 2007		30 th June 2006	
	Group \$	Parent \$	Group \$	Parent \$
11 Current Liabilities - continued				
Movements in Provisions				
Opening Balance	-	-	-	-
Amounts added to Deferred Maintenance Provision after due assessment	27,000	27,000	-	-
	27,000	27,000	-	-
Amount deducted from Deferred Maintenance Provision for provisions elapsed	-	-	-	-
Closing Balance	27,000	27,000	-	-
Opening Balance	-	-	-	-
Amounts added to Warranty Provision after assessment of each turbine's history and expected claims	600,000	600,000	-	-
	600,000	600,000	-	-
Amount deducted from Warranty Provision for warranty provisions elapsed	68,333	68,333	-	-
Closing Balance	531,667	531,667	-	-
Total Provisions	558,667	558,667	-	-
12 Current Assets				
Cash on Hand and at Bank				
Trading Accounts balances	1,002,090	953,824	103,245	60,192
Term Deposits				
Term Deposits maturing within six months	1,139,281	1,139,281	1,492,557	1,492,557
Term Deposits maturing within one year	20,000	20,000	-	-
	1,159,281	1,159,281	1,492,557	1,492,557
The carrying amounts of cash, deposits and receivables are at fair value and are the maximum exposure to credit risk. The group is not exposed to any concentration of credit risk.				
Interest Accrued				
Term Deposits	1,059	1,059	5,985	5,985
Accounts Receivable				
Trade Receivables	3,785,201	3,783,688	564,729	478,843
Prepayments	55,250	55,250	21,786	21,786
GST Refunds	-	-	88,605	88,605
Tax Refunds (refer Note 5)	52,624	52,190	29,168	28,856
Retentions sale of Turbines	315,000	315,000	-	-
Stock Prepaid				
Items of stock prepaid	1,333,650	1,333,650	-	-
Stock on Hand and Work in Progress				
Wind turbine component parts	413,192	252,161	705,654	705,654
Wind turbines work in progress	2,949	2,949	484,661	484,661
	416,141	255,110	1,190,315	1,190,315
Total Current Assets	8,120,296	7,909,052	3,496,390	3,367,139

	30 th June 2007		30 th June 2006	
	Group \$	Parent \$	Group \$	Parent \$
13 Fixed Assets				
Wind Turbine and Associated Assets				
Site Costs	33,520	33,520	33,520	33,520
Turbine	972,584	972,584	972,584	972,584
Tooling, Equipment, Moulds	742,998	628,496	711,337	459,127
Total Wind Turbine and Associated Assets	1,749,102	1,634,600	1,717,441	1,465,231
Less Accumulated Depreciation	956,769	899,043	851,515	651,998
	792,333	735,557	865,926	813,233
Motor Vehicles	30,540	30,540	21,296	21,296
Less Accumulated Depreciation	11,684	11,684	6,187	6,187
	18,856	18,856	15,109	15,109
Leasehold Improvements	4,216	-	4,216	-
Less Accumulated Depreciation	835	-	329	-
	3,381	-	3,887	-
Office Equipment	230,588	230,585	192,741	192,296
Less Accumulated Depreciation	162,702	162,702	134,401	134,166
	67,886	67,883	58,340	58,130
Total Fixed Assets	882,456	822,296	943,262	886,472
14 Intangible Assets				
Fair value of TLG licence	600,305	600,305	600,305	600,305
Less Accumulated Amortisation	441,694	441,694	366,657	366,657
	158,611	158,611	233,648	233,648

15 Subsidiary and Associated Companies**Pacific Windfarms Limited**

The shares of Pacific Windfarms Limited are owned one hundred percent by Windflow Technology Limited. Pacific Windfarms Limited has not traded since incorporation. Its balance date is the 30th June 2007.

Wind Blades Limited

Windflow Technology Limited has a 50% shareholding in Wind Blades Limited; it has been determined that Windflow Technology Limited controls this entity. The financial statements of that company have been consolidated within these accounts. Wind Blades Limited is involved in the construction of the blades for the Windflow turbine.

Its balance date is the 30th June 2007.

The Directors are negotiating to acquire the remaining 50% shareholding of Wind Blades Limited.

NZ Windfarms Limited

During the financial period, NZ Windfarms Limited completed a further share issue. As a result of this issue Windflow Technology Limited now owns 3.82% of the total shares issued by NZ Windfarms Limited (30 June 2006 42.99%). Due to this event NZ Windfarms Limited is no longer an Associate Company within the Group and as a result has not been equity accounted in the year ended 30th June 2007.

Windpower Otago Limited

Windflow Technology Limited has a 20% share holding in Windpower Otago Limited. This is an Associate Company within the Group, it has not been equity accounted for the reasons detailed in Note 3. Windpower Otago Limited is involved in the development and operation of wind farms. No calls have been made in regard to its share capital.

Its balance date is the 30th June 2007.

Windpower Maungatua Limited

Windpower Maungatua Limited was incorporated on the 27th April 2006 and Windflow Technology Limited has a 16.66% share holding (30 June 2006 20%). No calls have been made in regard to its share capital.

16 Commitments

Capital Commitments as at balance date totalled \$274,594. Which is made up of \$140,000 for new cladding moulds and \$134,594 for costs associated with the establishment of the leased warehouse and assembly area in Mandeville Street, Christchurch (30th June 2006 \$191,551).

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, and term deposits.

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

The Company has advanced minor amounts to its associated companies which are unsecured. (Refer Note 19). The Company is comfortable with this exposure.

Concentrations of Credit Risk

The Company does not have any significant concentrations of credit risk apart from the above advances and its deposits 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.

As at balance date there were two term deposits totalling GBP 37,994, there is a foreign currency risk associated with these investments.

Interest Rate Risk

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

Credit Facilities

The Company has no credit facilities, other than trade creditors.

Fair Values

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

18 Significant Events After Balance Date

There were no significant events after balance date.

19 Related Party Disclosures

The Company paid a royalty payment for the sale of 28 turbines of \$280,000 (exclusive of GST) to Mr G Henderson, which is pursuant to the Licence Agreement that it has with Mr Henderson.

There is an amount outstanding at balance date due to Mr Henderson and included within accounts payable of \$157,500 inclusive of GST (30th June 2006 nil).

All other 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 to a Director, Mr K McConnell \$57,854 (30th June 2006 \$9,569), and fees for services to a second Director, Mr H Kelly \$1,000 (30th June 2006 nil) and the fees were charged on normal commercial terms.

The amount outstanding at balance date to Mr McConnell, and included within accounts payable is \$14,382 (30th June 2006 \$4,435).

Other related party transactions relate to the share options plan as seen on Note 10.

19 Related Party Disclosures - continued**Associates**

Windflow Technology Limited held 42.99% of the shares in NZ Windfarms Limited as at the 30th June 2006. As a result of a share issue during the current year this percentage is now 3.82%.

This investment is no longer one over which the Company has significant influence and therefore NZ Windfarms Limited has not been equity accounted for the year ended 30th June 2007.

During the period ended 30th June 2007 NZ Windfarms Limited confirmed the purchase of 28 turbines from the Company. As at the 30th June 2007 the remaining capital commitment owing for this order was \$14,581,000 (30th June 2006 \$1,512,000).

Windflow Technology Limited held 20% of the shares in Windpower Otago Limited as at the 30th June 2007.

Windflow Technology Limited has advanced funds to that company to assist in initial set up costs and as at balance date these totalled \$25,902 (30th June 2006 \$24,777).

The advance is interest free and repayable upon demand.

Windflow Technology Limited held 16.66% (30th June 2006 20%) of the shares in Windpower Maungatua Limited as at the 30th June 2007.

Windflow Technology Limited has advanced funds to that company to assist in initial set up costs and as at balance date these totalled \$ 1,000 (30 June 2006 nil).

The advance is interest free and repayable upon demand.

**20 Reconciliation of reported deficit
with cash flows from operating activities**

	30 th June 2007		30 th June 2006	
	Group \$	Parent \$	Group \$	Parent \$
Net Deficit	(3,314,381)	(3,252,699)	(2,215,478)	(2,081,278)
<i>Less Non Cash Items and non operating items:</i>				
Amortisation of Licences	75,038	75,038	75,038	75,038
Depreciation	291,140	281,079	279,764	248,916
Equity Earnings	-	-	104,207	-
	366,178	356,117	459,009	323,954
Cash Flow from Operations before working capital changes	(2,948,203)	(2,896,582)	(1,756,469)	(1,757,324)
<i>Movements in Working Capital</i>				
Increase (Decrease) in accounts payable excluding asset purchases	85,974	(15,612)	635,629	644,233
Increase (Decrease) in Progress payments held	6,214,000	6,214,000	338,000	338,000
Increase (Decrease) in Provisions	558,667	558,667	-	-
Decrease (Increase) in accounts receivable & interest accrued	(2,723,756)	(2,495,531)	(545,963)	(473,871)
Decrease (Increase) in Work in Progress	(559,476)	(398,445)	(149,518)	(149,518)
Decrease (Increase) in Prepayments	703	703	603,304	603,304
Decrease (Increase) in Retentions	(315,000)	(315,000)	-	-
Decrease (Increase) in Other	(34,188)	(34,188)	-	-
Decrease (Increase) in GST receivable	438,492	418,165	(134,666)	(147,856)
Decrease (Increase) in tax refund	(23,456)	(23,334)	(27,481)	(27,502)
	3,641,960	3,909,425	719,305	786,790
Net Cash Flows from Operating Activities	693,757	1,012,843	(1,037,164)	(970,534)

21 Prospective Financial Information

On 28th July 2003 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 from the 2003 Prospectus for the year ended 30th June 2007 with the actual result (parent) from the same period, and from the 2003 Prospectus for the year ended 30th June 2006 with the actual result (parent) for the same period.

Statement of Financial Performance	2003 Proj'ns to 30th June 2007 \$	Actual to 30th June 2007 \$	2003 Proj'ns to 30th June 2006 \$	Actual to 30th June 2006 \$
Operating Revenue				
Consultancy Fees Received	-	48,872	-	7,381
Distributed Generation Benefits	-	28,169	-	30,449
Foreign Currency Gains	-	(50,573)	-	37,770
Grants Received	-	201,517	-	69,233
Interest Received	12,000	208,606	9,000	223,820
Sale of Turbines	40,500,000	1,911,399	20,250,000	1,300,000
Maintenance Fees Received	560,000	-	260,000	-
Sale of Power	104,000	29,422	104,000	20,420
Sundry Income	-	42,473	-	4,820
	41,176,000	2,419,885	20,623,000	1,693,893
Operating Expenses				
Amortisation of Licences	183,000	75,038	183,000	75,038
Cost of Sales	36,201,000	2,825,482	19,333,000	2,259,845
Engineering Costs	-	1,168,097	-	426,897
Research and Development Costs	426,000	256,875	426,000	147,182
Marketing Costs	400,000	259,116	400,000	66,738
General and Administration Costs	451,000	806,896	451,000	550,555
Depreciation	127,000	281,079	127,000	248,916
	37,788,000	5,672,583	20,920,000	3,775,171
Net Deficit (Surplus)	(3,388,000)	3,252,698	297,000	2,081,278
Statement of Cash Flows				
Opening Balance	466,000	60,192	357,000	3,126,721
Net cash inflows (outflows) from operating activities	3,095,000	1,012,843	109,000	(970,534)
Net cash inflows (outflows) from investing activities	-	149,437	-	(781,219)
Net cash inflows (outflows) from financing activities	-	(268,648)	-	(1,314,776)
Net Increase (Decrease) in cash held	3,095,000	893,632	109,000	(3,066,529)
Closing Balance	3,561,000	953,824	466,000	60,192

21 Prospective Financial Information - continued**Statement of Financial Position**

	2003 Proj'ns to 30th June 2007	Actual to 30th June 2007	2003 Proj'ns to 30th June 2006	Actual to 30th June 2006
	\$	\$	\$	\$
Shareholder' Equity				
Share Capital	9,415,000	12,360,950	9,415,000	12,292,992
Retained Earnings Account	(3,516,000)	(10,330,366)	(6,903,000)	(7,077,668)
Capital Reserves	-	2,753,514	-	1,088,214
	5,899,000	4,784,098	2,512,000	6,303,538
Current Liabilities				
Progress Payments Held	-	6,552,000	-	338,000
Accounts Payable / GST	95,000	1,188,918	95,000	874,969
Provision for Warranty	3,310,000	558,667	1,674,000	-
	3,405,000	8,299,585	1,769,000	1,212,969
Total Equity and Liabilities	9,304,000	13,083,683	4,281,000	7,516,507
Current Assets				
Cash on Hand and at Bank	3,561,000	953,824	466,000	60,192
Term Deposits	200,000	1,159,281	200,000	1,492,557
Interest Accrued	-	1,059	-	5,985
Accounts Receivable	-	3,783,688	-	478,843
Prepayments / Retentions	4,050,000	370,250	2,025,000	21,786
GST Refund	466,000	-	253,000	88,605
Stock Prepaid	-	1,333,650	-	-
Work in Progress	-	255,110	-	1,190,315
Other Assets	-	52,190	-	28,856
	8,277,000	7,909,052	2,944,000	3,367,139
Non Current Assets				
Fixed Assets	594,000	822,296	721,000	886,472
Intangible Assets	433,000	158,611	616,000	233,648
Advances to Equity Investment	-	26,902	-	863,332
Advance to Subsidiary	-	544,447	-	208,841
Shares - NZ Windfarms Limited	-	3,600,000	-	1,934,700
Shares - Wind Blades Limited	-	22,375	-	22,375
	1,027,000	5,174,631	1,337,000	4,149,368
Total Assets	9,304,000	13,083,683	4,281,000	7,516,507

21 Prospective Financial Information - continued

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

The sale of wind turbines had not commenced, as projected, during the 2003, 2004, or 2005 financial year. The sale of part of the first batch of five turbines took place during the 2006 financial year.

In 2007, the cost of sales variance is due to the timing of construction of the wind turbines.

Further research and development costs were incurred during the 2007 financial year in order to adopt the improvements identified by the design review.

Depreciation did not commence until the installation of the first turbine was completed at Gebbies Pass. The date was determined to be from the 1st July 2003.

Since the issue of the 2001 Prospectus the Directors have determined that a policy of amortisation regarding the licences and wind rights be introduced. Due to the sale of the wind rights this policy in the 2007 year is only applicable to the licences.

22 Contingent Liabilities

As at the 30th June 2007 no contingent liabilities existed (30th June 2006 nil).

23 Adoption of New Zealand equivalents to International Financial Reporting Standards.

The Company will apply New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in the preparation of its financial statements for the year ending 30th June 2008. This will necessitate NZ IFRS compliant comparative figures for the year ended 30th June 2007.

The Company does not anticipate any system change requirements but will work in close consultation with its accounting and audit advisors. It has already been in discussion with those parties and identified a timetable of implementation.

The key impact areas are:

Deferred Taxation

Under NZ IFRS the deferred tax liability will be calculated using a "balance sheet" approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items.

The current approach recognises differences between the accounting surplus and taxable income.

Future Benefit of Tax Losses

The Company is required to establish an asset to recognise the future benefit from tax losses if it is determined that future tax profits will eventuate, against which unused tax credits can be utilised.

Any increase or decrease in the amount of the asset each year following, will result in an increase or decrease in the net surplus after tax.

The above summary should not be taken as an exhaustive list of all differences between existing NZ GAAP and NZ IFRS that will impact upon the Company. The Company is not at a stage of the implementation to enable it to reliably quantify the financial impacts on the financial results.

The actual impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

INTRODUCTION

The Board of Directors is elected by the shareholders and is responsible for the corporate governance of the Company. The Board is the final body responsible for the decision making within the Company and has the requirement to work to enhance the value of the Company in the interests of the Company and its shareholders.

Corporate Governance encompasses the requirement for the Board to discharge such responsibilities, to be accountable to the shareholders and other stakeholders for the performance of the Company and to ensure that the Company is compliant with laws and standards.

The Board establishes the objectives of the Company and is engaged in ongoing strategic planning in order to meet these objectives. It provides an oversight of compliance and risk, it measures and monitors management performance and it sets in place the policy framework within which the Company operates.

The Board monitors financial results and compares them to the budgets and annual plans at the regular monthly meetings.

The following headings reflect the corporate governance principles recommended by the New Zealand Securities Commission in February 2004.

Reference has also been made to the Corporate Governance Best Practice Code (the NZX code).

BOARD COMPOSITION AND MEMBERSHIP

As at the 30th June 2006 the Board comprised five Directors. This included a non-executive Chairman, an executive Director (the Chief Executive Officer) and three non-executive Directors.

The Board has a broad base of energy, engineering, financial, legal and other skills, experience and expertise to meet its objectives.

The details and background of the Directors are detailed elsewhere within this Annual Report.

The Chairman is elected by the Board of Directors and it is his role to manage the Board in the most effective manner and to provide a conduit between the Board and the Chief Executive Officer. He has no significant external commitments that conflict with this role.

Procedures for the operation of the Board, including the appointment and removal of Directors, are governed by the Company's Constitution.

The Board held twelve meetings during the financial period ended 30th June 2007. In addition to these formal meetings the Board meets on other occasions to debate strategic and financial deliberations.

Chief Executive Officer Performance Review

The Board is responsible for the evaluation of the Chief Executive officer against his key performance objectives and is responsible for the setting of these objectives on a periodic basis and ensuring that they are an appropriate measure.

Directors' Shareholdings as at the 30th June 2007

There is a Share Option Plan with Mr G Henderson, the Chief Executive Officer, which relates to any royalties payable under the TLG licence. This is detailed within Note 10 of the Notes to the Financial Statements (page 16).

Directors' disclosure of their shareholdings pursuant to Section 148 of the Companies Act 1993 and the NZAX listing rule are shown as at 30 June, 2007 in the list below.

Director	Shares Held		
	Beneficially	Interest of Associated Persons	Non-Beneficially
Barrie Leay	8,650		
Geoff Henderson	383,784	387,025	
Heugh Kelly	24,500		
Keith McConnell	7,166		
Caroline Parlane	5,000		

Independence of Directors

To be "independent" a Director must, in the opinion of the Board, be removed from any relationship or business that could materially interfere or be reasonably perceived to materially interfere with the exercise of his or her independent judgement.

It has been determined by the Board that of the five Directors all Directors were independent apart from Mr Geoff Henderson and Mr Keith McConnell. Mr Henderson is the Chief Executive Officer and Mr McConnell has carried out various strategic consultancy exercises on behalf of the Company on a fee paying basis.

All Directors are required to immediately advise if any new relationships would interfere with such independence and so enable the Board to consider and determine the materiality of the relationship.

Board Committees

There is an audit committee consisting of Keith McConnell (Chairman), and Caroline Parlane. This audit committee meets monthly on the same day as board meetings in order to review the financial reports with the CEO and the company's accountants.

Due to the size of the Company no other Board Committees have been established to assist in the execution of the Board's responsibilities. All such matters are conducted at the regular full Board meetings.

ETHICAL STANDARDS

Code of Ethics

The Company expects all its employees and Directors to maintain the highest ethical standards.

The Directors support the principles set out in the "Codes of Proper Practice for Directors" issued by the Institute of Directors in New Zealand. Whilst recognizing that the Code expresses principles and does not purport to determine the detailed course of conduct by Directors on any particular matter, the Directors are committed to the highest standards of behaviour and accountability.

Interests Register

In accordance with the Companies Act 1993 the Company maintains an Interest Register in which the particulars of certain transactions and matters involving Directors are recorded. The following table summarises the Directors' interests in entities with which the Company has, or may in future have, transactions:

Director	Directorship or shareholding (at 30/6/2007)
Barrie Leay	Aquaflow Bionomic Corporation Ltd NZW-TRH Ltd NZ Windfarms Ltd
Geoff Henderson	Aeolian Property Company Ltd Henderson Inventions (TLG Patent) Pacific Windfarms Ltd Wind Blades Ltd Windpower Otago Ltd Windpower Maungatua Ltd
Heugh Kelly	
Keith McConnell	A H Gears Ltd NZ Windfarms Ltd Wind Blades Ltd
Caroline Parlane	Aquaflow Bionomic Corporation Ltd

Conflicts of Interest

If conflicts of interest do exist at law then the policy of the Board is that Directors must declare their interest and do not exercise their right to vote in respect of such matters.

Insider Trading

Directors and employees of the Company are subject to the limitations on their ability to buy or sell Windflow Technology Limited shares under the NZAX Listing Rules and the Securities Markets Act 1988. No one at Windflow Technology is permitted to, directly or through other persons or entities, buy or sell Windflow Technology shares or advise someone else to buy or sell Windflow Technology shares on the basis of inside information about the Company, its joint venture partners and subsidiaries.

AUDIT GOVERNANCE AND INDEPENDENCE

The Board approved the reappointment of Goldsmith Fox PKF as Auditors for the year ended 30th June 2007. Shareholders approved the Board setting the remuneration of the Auditors at the Annual General Meeting in October 2006.

The work of the external Auditors is limited to audit and related work only and the Company is committed to auditor independence. The Board annually reviews the independence and objectivity of the external Auditors. No employees, Partners or Directors of the Audit firm hold shares in the Company.

Representatives of the Company's external Auditors, Goldsmith Fox PKF have been invited to the Annual General Meeting.

DIRECTORS REMUNERATION

The current annual Directors fees paid to all Directors within the parent company total \$99,000 per annum, each Director receiving \$18,000 each and the Chairman receiving \$27,000.

The salary of the Chief Executive Officer as at the 30th June 2007 was \$100,000.

Project management fees totalling \$57,854 were paid to one Director, Mr K McConnell and fees for services to a second Director, Mr H Kelly \$1,000. Refer to Note 19 on page 21.

The following table summarises the remuneration for the period to 30 June 2007 of the Directors of Windflow Technology Ltd:

Name	Directors Fees	Salary	Other Fees
Barrie Leay	\$27,000		
Geoff Henderson	\$18,000	\$100,000	
Heugh Kelly	\$18,000		\$1,000
Keith McConnell	\$18,000		\$57,854
Caroline Parlane	\$18,000		

No other benefits were received by the Directors of the Company. Reimbursements of appropriate costs (mainly travel to meetings) were made.

REPORTING AND DISCLOSURE

Annual and Interim Reports in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the NZAX Listing Rules are communicated on a periodic basis to all shareholders.

A web site is maintained and contains regular updates to shareholders as well as the Annual and Interim Reports.

The Chief Executive Officer and other Senior Officers have conducted regular information meetings and discussions with shareholders and interested persons.

RISK MANAGEMENT

The Company has a policy of identifying, assessing and managing risks arising from its business direction and also from the strategic environment.

It implements risk management through its business processes of planning, budgeting, investment and project analysis, and operations management.

SHAREHOLDER RELATIONS

The Board's policy is to ensure that shareholders are informed of all major and strategic developments affecting the Company's state of affairs.

All major disclosures are posted to the Company's web site on a timely basis. Regular media releases are made and copied to shareholders by email.

COMPANY SECRETARY

The board has appointed Terry Moon as Company Secretary, effective as of 21st June 2005 to take on the task of co-ordinating all the reporting and compliance requirements of the company throughout the financial year.

OTHER STATUTORY INFORMATION**EMPLOYEE REMUNERATION**

For the period to 30 June 2007, there were no employees who earned more than \$100,000. The remuneration paid to Geoff Henderson is reported under the heading Director Remuneration.

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

Windflow has incorporated two subsidiaries. They are Wind Blades Limited and Pacific Windfarms Limited. The Directors of Wind Blades Limited are Peter Brooking, Bruce Tait, Keith McConnell and Geoff Henderson. The sole Director of Pacific Windfarms Limited (which is non-trading) is Geoff Henderson.

DONATIONS

The Windflow Technology Ltd Directors have decided that no donations to charity will be made until the Company has paid a dividend to its shareholders. Therefore no donations have been made in the financial year being reported on.

SHAREHOLDER INFORMATION

The ordinary shares of Windflow Technology Ltd are listed on the New Zealand Stock Exchange's Alternative Market (NZAX). The information in the disclosures below has been taken from the Company's register at 30th June 2007.

TWENTY LARGEST ORDINARY SHAREHOLDERS

Shareholder	Address	Shares	%
Geoff Henderson	Christchurch	383,784	5.71
Delane Wycoff	Nebraska, USA	362,244	5.39
Jenny Henderson	Christchurch	332,237	4.94
Thawedfull Investments Ltd	Franz Josef	240,000	3.57
Reda Holdings Ltd	Cayman Islands	144,977	2.16
Paul Simmons	Christchurch	105,000	1.56
Margaret Simmons	Christchurch	105,000	1.56
Simon Stockdale	Nelson	96,825	1.44
David Isles	Wellington	92,190	1.37
Andrew Rochford & Sabina Rochford	Warkworth	79,512	1.18
Fitzallan Investments Ltd	Christchurch	73,500	1.09
Victor Holmes & Christine Holmes	South Auckland	72,555	1.08
FNZ Custodians Ltd	Wellington	60,463	0.90
Geoffrey Robinson & Reihana Robinson	Coromandel	60,000	0.89
Caroline Stockdale	Nelson	60,000	0.89
Sheila Kolstad	Christchurch	60,000	0.89
Investment Custodial Services Ltd	Takapuna	50,542	0.75
NZ Central Securities Depository Ltd	Christchurch	40,450	0.60
Aeolian Property Company Ltd	Christchurch	40,000	0.60
Estate F M Henderson A/c Jean Marian Henderson	NSW, Australia	38,114	0.57
	TOTALS	2,497,393	37.14%

DISTRIBUTION OF SHAREHOLDERS

Holdings Ranges	Number of Holders	Number of Shares	%
1 - 1,000	148	106,305	1.58
1,001 - 5,000	370	1,039,581	15.47
5,001 - 10,000	195	1,301,097	19.36
10,001 - 50,000	107	1,896,055	28.20
50,001 - 100,000	10	705,587	10.50
100,001 - 1,000,000	7	1,673,242	24.89
1,000,001 - and over	0	0	0
Totals	837	6,721,867	100.00

SUBSTANTIAL SECURITY HOLDERS

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received, the following persons were substantial security holders in the company at 30th June 2007.

Shareholder	Number of shares directly held	%
Henderson Family Interests – made up of:	770,809	11.47
• Geoff Henderson	383,784	
• Jenny Henderson	332,237	
• Est. F. M. Henderson & J. M. Henderson	38,114	
• Catherine Henderson	11,746	
• Jean Henderson	3,969	
• Jon Henderson	959	
Delane Wycoff	362,244	5.39
Totals	1,133,053	16.86

The total number of issued voting securities as at 30th June 2007 was 6,721,867.

The Directors of Windflow Technology Ltd are:



Barrie Leay, Chairman of Directors

45 Ledbury Rd, Nelson

Barrie Leay was until mid-1997 Executive Director of the Electricity Supply Association of New Zealand. Subsequently he was elected as the founder Chairman of APEC Energy Business Network in the Asia Pacific region, where he has been a leading figure in the reforms of the electricity industries and the establishment of competitive electricity markets in New Zealand and other APEC economies. Barrie is currently Chairman of Aquaflow Bionomic Corporation Limited, Bio Refineries Limited, ThePacific.net Limited, Ecodyne Limited, ASCE Corporation Limited, Suntech Power Limited and is a director of NZ Windfarms Ltd (NZWL) and several other companies.



Keith McConnell, Director

12 Balfour 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.



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 and in 2005 was elected a Fellow of IPENZ. He is also a director of the Aeolian Property Company Ltd and three companies in which the Company has shares, Wind Blades Ltd, Windpower Otago Ltd and Pacific Windfarms Ltd (non-trading).



Heugh Kelly, Director

Shegadeens Road, R.D. 1, Wellsford

Heugh Kelly is a barrister and solicitor with over 20 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.



Caroline Parlane, Director

17A Putnam St 4, Wellington

Caroline Parlane was previously Senior Advisor International Relations Energy for the Ministry of Economic Development, being the Government's representative on crucial international bodies such as the International Energy Agency (IEA), and the Energy Working Group of APEC, and is knowledgeable of many aspects of the global energy industry.

Management Team

Chief Executive Officer Geoff Henderson
 Senior Project Manager Warwick Payne
 Senior Mechanical Engineer Gavin Williams
 Senior Electrical Engineer Wernher Roding
 Production Manager Jules Ganley
 Quality Manager Tim Armitage
 Marketing Manager Sheralee MacDonald
 Sales Engineer John Arimond
 Accountant Nicola Catchpole
 Office Manager Terry Moon

From left rear: Sheralee MacDonald,
 Terry Moon, Tim Armitage, Warwick Payne,
 Geoff Henderson, Nicola Catchpole,
 John Arimond (front), Jules Ganley.
 Absent: Wernher Roding, Gavin Williams

Solicitor

Guy Mortlock
 Mortlocks
 137 Armagh St
 Christchurch

Accountant

Mike Keyse
 HFK Ltd
 567 Wairakei Road
 Christchurch

Auditor

Goldsmith Fox PKF
 250 Oxford Terrace
 Christchurch



Share Registry

Link Market Services Ltd
 138 Tancred St
 Ashburton

Bankers

Bank of New Zealand Limited
 81 Riccarton Rd
 Christchurch

Insurance Brokers

Marsh Limited
 Level 4, 233 Cambridge Terrace
 Christchurch

Principal Suppliers

Blades Wind Blades Ltd of Auckland
 Gearbox AH Gears Ltd of Auckland
 Electrical Control Bremca Ltd of Christchurch
 Hub Farra Fabrication Ltd of Dunedin
 Generator Newage International Ltd of UK (Sydney office)
 Hydraulics Rexroth NZ Ltd of Christchurch
 Nacelle Assembly ASCO (NZ) Ltd of Christchurch
 Pallet Farra Fabrication Ltd of Dunedin
 Tower ACME Engineering of Petone
 Tower Eastbridge of Napier
 Civil/Survey Services Connell Wagner of Christchurch



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