



**WINDFLOW TECHNOLOGY LTD  
DIRECTORS' REPORT  
MARCH 2002**

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**COMPANY DIRECTORY**

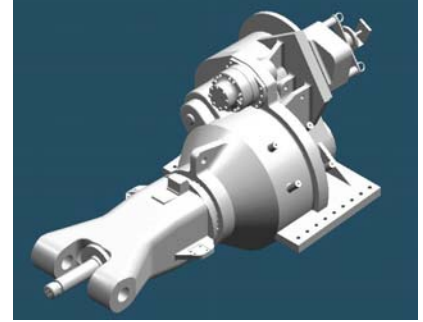
NATURE OF BUSINESS	Wind turbine manufacturing
SUBSIDIARY COMPANY	Wind Torque Ltd (100% owned)
REGISTERED OFFICE	c/- Hensley Mortlock, 137 Armagh St, Christchurch
DIRECTORS	N J Cherry, G M Henderson, H M Kelly, P B Leay, K J McConnell
BANKERS	National Bank, Christchurch
SOLICITORS	Hensley Mortlock, Christchurch
AUTHORISED CAPITAL	2,646,645 Shares

<b>TOP TWENTY SHAREHOLDERS</b>			
<b>Shareholder</b>	<b>Address</b>	<b>Shares</b>	<b>%</b>
Geoff Henderson	Christchurch	353,684	13.4%
Jenny Henderson	Christchurch	298,684	11.3%
Delane Wycoff	Nebraska, USA	79,020	3.0%
Reda Holdings Ltd	Geneva, Switzerland	54,151	2.0%
Paul Simmons & Margaret Simmons	Christchurch	44,191	1.7%
Jeanette Fitzsimons	Thames	35,568	1.3%
Francis Henderson	NSW, Australia	35,238	1.3%
Vic Holmes & Christine Holmes	South Auckland	35,185	1.3%
Matthew Cloonan & Jonathan Cweorth	Dunedin	34,000	1.3%
Armitage Consultancy Limited	Christchurch	27,730	1.0%
Aeolian Property Company Ltd	Christchurch	25,000	0.9%
Ian Shearer & Mary Newman	Wellington	20,469	0.8%
Angus Napier	Wellington	20,000	0.8%
Andrew Rochford & Sabina Rochford	Warkworth	20,000	0.8%
Thomas Buxton	Christchurch	16,000	0.6%
Neil Cherry	Christchurch	16,000	0.6%
Barrie Leay	Wellington	16,000	0.6%
Keith McConnell	Auckland	16,000	0.6%
Simon Stockdale	Auckland	16,000	0.6%
Mark Jenne & Marcy Jenne	California, USA	15,439	0.6%
<b>TOTALS</b>		<b>1,162,920</b>	<b>43.9%</b>

**DIRECTORS' REVIEW**

**Engineering Progress**

Since the closing of the Company's Stage 1 share offer on September 28, 2001, there has been good progress towards the Stage 1 objective of building the first Windflow turbine. The office has been set up at 87 Victoria St, good staff have been employed and the detailed design is progressing well. Latest 3D drawing software has been purchased to facilitate the process.



Major components, the blades and slewing bearings, have been ordered, the latter being long lead-time items made in France. The blade moulds are now being laid up by two Auckland boat-builders trading as "Wind Blades Ltd". High quality pinus radiata wood veneers for the blade structure have been purchased from Carter Holt Harvey's plywood plant in Tokoroa. Wood-epoxy laminate test specimens have been made and are currently being tested at the University of Canterbury using a \$10,000 grant from the Foundation for Research, Science and Technology. Detailed stress analysis of the blade will be carried out, using "finite element" 3D computer modelling, which will be based on the material properties arising from this specimen testing.

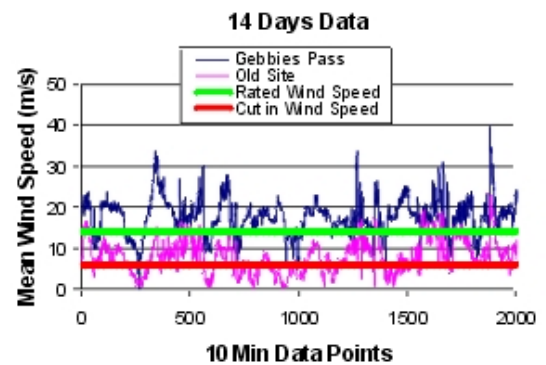
There have been some delays in placing the order for the gearbox, but this is in hand and we hope to be able to advise at the AGM that this order has been placed. Other components have yet to be ordered, but this is consistent with the project schedule, which should see the first turbine installed as early as late-September this year.



**Siting Progress**

A new site has recently been identified for the first turbine in the Gebbies Pass area, about half an hour from Christchurch. This follows testing at the initially selected site which showed a surprisingly poor wind resource.

The wind resource at the new site appears to be very good, and road and transmission access is good. The land-owner is willing and a contract is currently being negotiated with him. The resource consent application process (including consultation with affected parties) will then follow. Assuming there are no great delays with this process, it is not expected to be on the "critical path" for our schedule.



**Financial Highlights**

The attached summary of cash-flows shows that the current position is sound and the project is proceeding within budget.

**Governance**

The directors are meeting monthly and take an active role in monitoring the project on behalf of the shareholders and independently of the Executive Director and staff.

signed on behalf of the directors 11<sup>th</sup> March, 2002,

*M. Cherry*      *Aeff Henderson*

**WINDFLOW TECHNOLOGY LTD  
DIRECTORS' REPORT MARCH 2002**

<b>WINDFLOW TECHNOLOGY LTD SUMMARY OF CASH FLOWS</b>			
<b>(\$'000)</b>	<b>Budget (Prospectus projections) for full year to September* 30, 2002</b>	<b>Budget 4 months to January 31st, 2002</b>	<b>Actual 4 months to January 31st, 2002</b>
<b>OPENING BALANCE</b>			
<b>OPERATING ACTIVITIES</b>			
<b>Revenue</b>			
Sale of Power: Stage 1			
Sale of Power: Stage 2			
Installed Windflow 500's (less retentions)			
Consultancy/Support Services			
<b>Total Revenue excl. Interest</b>			
<b>Expenditure</b>			
Engineering	698	185	63
Marketing	134	51	3
General & Administration	253	94	92
<b>Total Expenditure</b>	<b>1,085</b>	<b>330</b>	<b>159</b>
<b>Operating Cash before Interest &amp; Tax</b>	<b>-1,085</b>	<b>-330</b>	<b>-159</b>
Interest Income	111	58	31
Tax (RWT)		-23	-11
<b>TOTAL OPERATING ACTIVITIES</b>	<b>-974</b>	<b>-295</b>	<b>-138</b>
<b>INVESTING ACTIVITIES</b>			
Components for Windmills	-847	-78	
Spares & Tools for Windmills	-60		
Manufacturing Tooling	-157	-16	-16
Balance of Plant (site distribution etc)	-100		-4
Office Equipment	-20	-20	-73
Motor Vehicles	-20	-20	-12
<b>TOTAL INVESTING ACTIVITIES</b>	<b>-1,204</b>	<b>-134</b>	<b>-105</b>
<b>FINANCING ACTIVITIES</b>			
Subscribed funds	3,000	2,914	2,478
Issue Costs of Equity	-86	-86	-92
Dividend Payments			
Debt and Repayments			
Interest payments on long-term debt			
<b>TOTAL FINANCING ACTIVITIES</b>	<b>2,914</b>	<b>2,828</b>	<b>2,386</b>
<b>NET CASH FLOWS</b>	<b>736</b>	<b>2,399</b>	<b>2,143</b>
<b>CLOSING BALANCE</b>	<b>736</b>	<b>2,399</b>	<b>2,143</b>

\*Note: financial year ends June 30, 2002. Budget year is 1 year from close of Prospectus.

**DIRECTORS' FEES**

Each of the five directors receive directors' fees of \$15,000 annually.

**DIRECTORS' INTERESTS**

Geoff Henderson holds jointly with his wife, Jenny Henderson, 293 shares (14.5%) of Aeolian Property Company Ltd (APCL), of which he is a director. (Windflow Technology Ltd has rights to use APCL's land near Palmerston North for the purposes of wind farm development.)

Geoff owns the following patents and has the following licence arrangements for the TLG system of windmill power control:

- the New Zealand and Australian patents, for which exclusive licences have been granted to Windflow Technology Ltd
- the US patent, for which no licence is presently granted.

**DIRECTORS' MEETINGS**

Monthly directors' meetings have been held since the Company was incorporated in October, 2000. Two out of three meetings are by phone, the third meeting each quarter is face-to-face.