

## **Directors' Review to June 2009:**

### **HIGHLIGHTS**

The financial year to 30 June 2009 was a very busy one for Windflow and we are pleased to report on the many milestones achieved during this period:

- Receiving, in September 2008, the order from NZ Windfarms for the 32 turbines (Stage 4) required to complete its Te Rere Hau wind farm.
- Completing production, delivery, installation and commissioning of 45 turbines for Stages 2 and 3 of the Te Rere Hau wind farm, giving substantial and growing revenue for a second year
- Raising \$10.6 million of new equity including \$7.1 million from state-owned electricity generator/retailer Mighty River Power, who became a cornerstone shareholder in October 2008.
- Managing the resource consent process under the Resource Management Act ("RMA") on behalf of Mighty River Power for the Long Gully wind farm in Wellington.
- Substantially completing the calculations and other documents required for IEC Type Certification for the Windflow 500. These documents are currently being reviewed by Lloyds Register who, once satisfied that all the requirements have been met, will then issue the Class 1A Design Evaluation Conformity Statement and the overall Type Certificate for the Windflow 500.

The directors are pleased to report that the second six months of the year have shown an improved result relative to the first. The net result for the parent company for the second six months of the year was a net loss of \$0.372 million compared to a net loss of \$1.082 million for the first six months. For the full year there was an overall net loss of \$1.454 million. Windflow is making a gross profit from the sale of its turbines, with the net result being dependent on the number of turbines produced.

At the same time the directors and management are well aware that completing the transition to net profitability will require ongoing orders for turbines. As a result there has been a strong focus on achieving good technical performance of the turbines at Te Rere Hau while completing the IEC Type Certification work.

### **FINANCIAL RESULTS**

The Consolidated Results for the Windflow Group of companies are set out in the Financial Statements section of this report.

Windflow would like to highlight its strong balance sheet and sound cash position – due in part to the successful capital raising that took place in the first half of 2008/09. At balance date Windflow held \$11.727 million of cash deposits and had no long-term debt.

Windflow has continued to produce turbines at a positive gross production margin in the second half of the year. However this has not yet produced a net profit, although the net loss is significantly reduced relative to the first half.

Consolidated revenue for the year was \$29.522 million (compared with \$10.991 million for the 07/08 year). Direct production costs including turbine costs were \$26.169 million (compared with \$10.235 million for the 07/08 year) resulting in a gross profit of \$3.261 million for the period (compared with \$0.756 million for the 07/08 year).

The consolidated result is that we have recorded a loss of \$1.233 million (compared with \$2.044 million last year).

IEC expenses capitalised for the year were \$1.168 million, taking the total amount recorded as an intangible asset to \$2.492 million.

At year end total equity (net assets) stood at \$16.261 million (\$7.274 million last year).

The directors are pleased with the growth in revenue for the 2009 year, reflecting the transformation of the business to continuous manufacturing at the Christchurch factory, and at other supplier factories around New Zealand.

This preliminary announcement has been based on financial statements for the year to June 2009 that are in the process of being audited. There are two issues that are currently unresolved, which have the potential to raise matters of Fundamental Uncertainty:

- Windflow's main customer, NZ Windfarms Ltd, has placed unconditional orders for turbines but has recently withheld payments and asserts it has a contractual right to do so (an assertion which Windflow does not accept). If NZ Windfarms were to continue to withhold payments, then Windflow could have major cash flow issues.
- NZ Windfarms has released its own preliminary announcement in which it stated that "*while the [NZ Windfarms] Board is confident in the Company's ability to continue as a going concern, there is uncertainty with respect to achieving the operational cash flows predicted and the raising of additional funding prior to utilisation of available cash resources. Accordingly, there is uncertainty as to whether the Company can continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable*". If NZ Windfarms can not raise additional funding then Windflow could have major cash flow issues.

Windflow's financial statements have been prepared using the assumption that Windflow is a going concern. If the going concern assumption were not appropriate, then the amounts at which items are recorded in the financial statements could

change significantly. Windflow's directors believe that the going concern assumption is appropriate because:

- (a) Windflow has obtained an independent review of the contractual position with NZ Windfarms which review has given the directors comfort over Windflow's position and,
- (b) The NZ Windfarms Board has expressed confidence in NZ Windfarms' ability to continue as a going concern.

Total revenue in the New Year to 30 June 2010 is expected to exceed the revenue for the year to 30 June 2009, based on confirmed orders for the remainder of the Te Rere Hau project. In addition there are prospects for further turbine sales. However it is uncertain as to whether the revenue will reach our general target for healthy profitability. This is because of a number of factors which have created uncertainty about the immediate prospects for turbine sales. The factors include:

- a) Delays in obtaining resource consents for a number of prospective sites for the Windflow 500, including Mt Cass (declined by Hurunui District Council but currently being appealed), Long Gully and the Te Rere Hau extension
- b) Delays in completing the final documentation for IEC Type Certification
- c) Policy uncertainty about the price of carbon in the New Zealand economy
- d) Electricity market uncertainty as the industry faces another round of structural reforms
- e) General economic uncertainty because of the current recession.

Furthermore as discussed above, and also below under the heading "Significant events since balance date", there are some further uncertainties about the revenue for the remainder of the Te Rere Hau project.

Windflow reported last year that it was facing greater than anticipated manufacturing costs largely due to the increased cost of raw materials worldwide. A benefit of the current recession is that these costs have settled back down, enabling Windflow's costs of production to reduce appreciably.

In the case of Te Rere Hau, where the selling price of the last two batches of turbines was fixed in 2007, this reduction in raw material costs will improve the prospects that the last turbines for Te Rere Hau (Stage 4) will generate a gross profit. However there are other factors which create uncertainty about the profitability of the Stage 4 build, which are discussed below under the heading "Significant Events Since Balance Date".

## **CAPITAL ISSUES**

The second stage options exercise, which closed on 30 September 2008, raised \$2.6 million. A further \$580,000 was raised through private placements in early October 2008 despite weaker conditions generally on the New Zealand share market.

State-owned electricity generator/retailer Mighty River Power became a cornerstone shareholder in October 2008, investing over \$7.1 million for a 19.95% holding.

Some of these funds have been applied to working capital, costs associated with the ramping up of production, and turbine development. Most of the funds have been held at bank.

## **IEC TYPE CERTIFICATION OF THE WINDFLOW 500**

The calculations and other documents required for IEC Type Certification for the latest revision of the Windflow 500 were substantially completed by the end of June 2009, and fully completed and submitted by the end of July 2009. These documents are currently being reviewed by Lloyds Register. As expected Lloyds Register has requested that additional information be provided to them and Windflow is working on providing that information. When Lloyds Register is satisfied that all the requirements have been met, it will issue the Class 1A Design Evaluation Conformity Statement, along with the other two outstanding requirements for Type Certification, being the Manufacturing Evaluation Conformity Statement and the Type Testing Conformity Statement.

The fourth requirement for IEC Type Certification has already been met, being the ISO 9001 accreditation of the Quality Systems which Windflow applies to its engineering and business processes. Windflow received its ISO 9001:2003 certificate in June 2008 and in April 2009 was one of the first companies in New Zealand to have this updated to the latest version of ISO 9001:2008.

Once Lloyds Register is satisfied that all four requirements have been met, it will then issue the Type Certificate for the Windflow 500 in accordance with IEC Standard WT-01:2001.

The very rigorous disciplines of IEC Type Certification have added a significant amount of time to the original timetable for the work. Whilst the directors would have liked to have seen this work finished sooner, they are pleased by the additional intellectual property that it has created. They are also pleased that, whilst it has been time consuming, the rigour involved in the process has allowed Windflow to test thoroughly the reliability and safety of the many individual components of the turbine (for example the blades) to standards and conditions well beyond any the turbine will likely experience in service.

## **TE RERE HAU WIND FARM**

With all 97 turbines now ordered, the Te Rere Hau wind farm continues to grow and be our key site for the Windflow 500 turbine. The new electrical line, which has the capacity to take the full consented wind farm output of 48.5 MW when completed, became operational in November 2008. Prior to then only the five original turbines (installed in 2006) could operate, although 20 new turbines had been erected and were awaiting the power connection in order for commissioning to be completed, and for generation of power to commence. Since then turbines have been installed and

commissioned at an average rate of about five per month so that the total number commissioned at time of writing (ten months later) stands at nearly 60.

While there have been some issues to be addressed (as would be expected with a first substantial commercial production run) Windflow has been attending to these as they arise. In contrast to calendar year 2008 when availability was above the warranted level of 95%, these issues have reduced turbine availability to below 95% for the first half of calendar year 2009. While the availability has improved in recent months, it is possible that at the end of calendar year 2009 Windflow will need to compensate NZ Windfarms (pursuant to the availability warranty), so that NZ Windfarms income is restored to what it would have been if availability had been 95%. As set out above, this is attributed to non-recurring first-year issues. If triggered, it would involve a payment by Windflow of a few tens of thousands of dollars in January 2010.

## **LONG GULLY**

At the end of June 2008, Windflow announced a conditional agreement under which it would construct a wind farm at Long Gully, near Wellington, for Mighty River Power Limited, using the Windflow 500 turbine. Long Gully is within 30 minutes of the Wellington CBD, and is behind the suburb of Brooklyn. The first substantial condition is the obtaining of a resource consent for the project under the RMA.

Since then, Windflow has managed the resource consent process for an application for up to 25 turbines. The hearing took place in August 2009 and a decision is expected from the commissioners appointed by the Wellington City Council before the end of the year. The consent hearing took less than seven days of oral submissions, and the formal closing of the hearing (after the commissioners receive supplementary information) has been set down for Friday 18<sup>th</sup> September.

If built, this wind farm will become a showcase of the type of embedded generation that use of the Windflow turbine makes possible.

## **RESEARCH AND DEVELOPMENT**

Windflow is making steady progress in the development and testing of a wind-diesel variant of the Windflow 500 for island nations and isolated regions that rely on diesel for electricity generation. On completing the mechanical design work required for IEC certification, we have begun the development of a 60 Hz variant planned for the North American market. Development work on the low speed variant has been placed on hold to enable Windflow's engineering resources to be concentrated on the other projects which have a greater short term benefit. Our other R&D activity is focused on building and protecting Windflow's proprietary know-how in the torque-limiting gearbox and our teeter control system, the two core technologies which differentiate the Windflow 500.

## **MARKETING**

Windflow continues to work with wind farm developers and consultants in New Zealand to evaluate the Windflow 500 turbine for their potential projects. An increasing number of potential projects are being brought to our attention and we have a number of New Zealand sites currently under investigation. Although our current focus is New Zealand, we are also investigating other markets for the Windflow 500 turbine and variants going forward.

Windflow has been increasing its market development activity in South America and the USA. These countries will continue to be the main focus for Windflow with the possible addition of Australia as their renewable energy policies are confirmed. Over the last year Windflow has participated in wind energy conferences in New Zealand and the US and progressed discussions with potential South American customers and partners.

Our South America plans took a further positive step in June 2009 when we signed an agreement with Ingenieria Seawind Sudamerica Ltda (Seawind) based in Santiago, Chile to be our exclusive reseller for the sale, installation and maintenance of Windflow 500 wind turbines in Chile and Argentina. Chile and Argentina are emerging wind energy markets, with 50 Hz power supply (the same as New Zealand), many Class 1 wind sites and logistical constraints which favour a mid-size turbine such as the Windflow 500. We have been working with Seawind on proposals for several projects, and although it may take some time to enter these markets, working with a local company will be a great benefit.

Windflow has also continued to host visits to the Christchurch manufacturing facilities, Gebbies Pass wind turbine and Te Rere Hau wind farm to give industry, shareholders and the public an insight into turbine production and operation.

Our New Zealand-made Windflow 500 blades and nacelles were proudly on display in Wellington in March alongside the NZ Wind Energy Association conference, at which Windflow had a strong marketing presence. The growing track record at Te Rere Hau and progress toward IEC certification has been helping the marketing effort in New Zealand and other markets.

## **PROJECT PIPELINE**

In addition to working towards completion of the Te Rere Hau wind farm and progressing the consenting of the Long Gully wind farm discussed above, Windflow has been working towards several other potential wind farm opportunities mainly in New Zealand.

The challenge of consenting wind farms in New Zealand however has seen several potential projects for the Windflow turbine delayed, declined or abandoned over the year.

In June 2009, NZ Windfarms applied for consent for up to 56 Windflow 500 turbines for the Te Rere Hau extension and the consent hearing is set down for October,

2009. In March, NZ Windfarms pulled out of the proposed 50 turbine Maungatua wind farm near Dunedin citing resource consent issues. Mainpower's Mt Cass site in the Hurunui District, which included an option for up to 83 Windflow 500 turbines, was declined consent in April 2009, although Mainpower has since appealed the decision to the Environment Court with new layouts to reduce ecological effects.

In addition to working with wind farm developers and consultants in New Zealand to evaluate the Windflow 500 turbine for their projects, Windflow is also performing feasibility studies for and looking to secure sites that offer an economic wind farm proposition using Windflow 500 turbines. These include mid-size distributed generation projects which would not require large transmission lines and may attract less opposition and therefore may be able to be brought on-line more quickly than some larger projects.

## **SIGNIFICANT EVENTS SINCE BALANCE DATE**

### **Withholding of payments by NZ Windfarms Ltd**

Since August 17, NZ Windfarms has been withholding payments because of their concerns that the turbines do not meet the requirements of the supply contract. Windflow disagrees and is confident of its position that it is meeting its contractual requirements, and that the turbines meet the contractual requirements and the required duty at TRH. The parties are working towards a possible resolution of this matter.

### **Delay to Te Rere Hau Stage 4**

NZ Windfarms has advised it wishes to delay Stage 4 and preferably use the turbines at the extension site which has higher wind speeds but which is subject to consent. The parties are working towards a mutually agreeable resolution of this matter also.

While this matter is unresolved it creates some additional risk for Windflow about the overall costs and profitability of the Stage 4 build. If a resolution is agreed that involves the relocation of some or all of the stage 4 turbines to the extension site, it is likely to enhance the success of Te Rere Hau for our customer.

## OUTLOOK

Following the election of the National government in October 2008, Windflow has been engaging in a series of discussions with relevant Ministers. Changes to “streamline and simplify” the RMA, the review of the Emissions Trading Scheme (ETS), and the new focus on securing base load supply of energy for industry are all issues on which we have made submissions and are watching carefully for implications for the company. The Government recently announced a target of between 10 – 20% reduction in 1990 levels of greenhouse gases by 2020. Finalising the ETS, streamlining the RMA process and the proposed National Policy Statement for Renewable Electricity will all help provide some certainty for the industry going forward.

Since the “Wall Street meltdown” we have been highlighting that every Windflow turbine sold represents ten jobs in New Zealand and the flow-on effects of these on the local economy should not be underestimated. The exchange rate movements during the year have put Windflow, as the only turbine manufacturer in Australasia, in a stronger competitive position in the New Zealand market as imported turbines become more expensive, and may help our market entry in certain export markets.

The focus of the new USA administration on renewable energy is also creating opportunities which we are exploring, and global calls to stimulate economies by investing in renewable energy infrastructure and climate change reduction measures match our philosophy on global warming and climate change

While the economic climate appears to be on the rise, these are very challenging times. However we are confident we are weathering these recessionary times in better condition than most, and certainly in good heart; we are also optimistic that we are in a strong position to continue to grow the company and build our market share as the economic climate improves.

We thank all our shareholders for their continuing strong commitment to Windflow Technology, and our staff for continuing to resolve the challenges which constantly arise in a rapidly growing, leading edge, technology company.

Barrie Leay

CHAIRMAN

Geoff Henderson

CHIEF EXECUTIVE AND DIRECTOR

**PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT**

**Windflow Technology Limited**

(Name of Listed Issuer)

**F for the full year ended 30 June 2009**

(referred to in this report as the "current full year")

Preliminary full year report on consolidated results (including the results for the previous corresponding full year in accordance with NZAX Listing Rule B1.4.2.)

This report has been prepared in a manner which complies with generally accepted accounting practice and gives a true and fair view of the matters to which the report relates and is based on financial statements which are presently being audited.

The Listed Issuer has a formally constituted Audit Committee of the Board of Directors.

**Consolidated Income Statement**

<b>1 CONSOLIDATED INCOME STATEMENT</b>	<b>Current full year \$NZ'000</b>	<b>Up/(Down) %</b>	<b>Previous corresponding full year \$NZ'000</b>
<b>1.1 OPERATING REVENUE</b>			
(a) Trading Revenue	29,522	168.6	10,991
(b) Other Revenue	2,080	86.2	1,117
(c) Total Operating Revenue	31,602	161.0	12,108
<b>1.2 OPERATING SURPLUS (DEFICIT) BEFORE TAXATION</b>	( 1,233)	39.7	( 2,044)
(a) Less taxation on operating result			
<b>1.3 OPERATING SURPLUS (DEFICIT) AFTER TAXATION</b>	( 1,233)	39.7	( 2,044)
(a) Gain on transfer of assets to Joint Venture			
(b) Extraordinary Items after Tax [detail in Item 3]			
(c) Unrealised net change in value of investment properties			
<b>1.4 NET SURPLUS FOR THE PERIOD</b>	( 1,233)	39.7	( 2,044)
(a) Net Surplus attributable to minority interests			
<b>1.5 NET SURPLUS ATTRIBUTABLE TO MEMBERS OF THE LISTED ISSUER</b>	<b>( 1,233)</b>	<b>39.7</b>	<b>( 2,044)</b>

**Consolidated Income Statement**

<b>2 DETAILS OF SPECIFIC RECEIPTS/OUTLAYS, REVENUES/ EXPENSES FOR HALF YEAR YEAR</b>	<b>Current full year \$NZ'000</b>	<b>Previous corresponding full year \$NZ'000</b>
<b>2.1 INCLUDED IN CONSOLIDATED INCOME STATEMENT</b>		
(a) Interest revenue included in Item 1.1(b)	983	536
(b) # Unusual items for separate disclosure (gain/loss) (detail - Item 3)		
(c) Equity earnings (gain/loss) (detail - Item 16)		
(d) Interest expense included in Item 1.2 (include all forms of interest, etc)		
(e) Leasing and renting expenses	403	225
(f) Depreciation	658	520
(g) Diminution in the value of assets (other than depreciation)		
(h) Amortisation of goodwill		
(i) Amortisation of other intangible assets	145	116
(j) Impairment of goodwill		
(k) Impairment of other intangible assets		

**Consolidated Income Statement**



<b>5 EARNINGS PER SECURITY</b>		
Calculation of basic and fully diluted, EPS in accordance with IAS33: Earnings Per Share	Current full year NZ cents	Previous corresponding full year NZ cents
(a) Basic EPS	(10.28)	(23.93)
(b) Diluted EPS (if materially different from (a))	(10.11)	(23.14)

<b>6 MATERIAL ACQUISITIONS OF SUBSIDIARIES</b> (See Note (VII) attached):	
(a) Name of subsidiary or group of subsidiaries	None
(b) Percentage of ownership acquired	
(c) Contribution to consolidated net *Surplus (Deficit) (Item 1.4)	
(d) Date from which such contribution has been calculated	

<b>7 MATERIAL DISPOSALS OF SUBSIDIARIES</b> (See Note (VII) attached)	
(a) Name of subsidiary or group of subsidiaries	None
(b) Contribution to consolidated net *Surplus (Deficit) (Item 1.4)	\$
(c) Date from which such contribution has been calculated	
(d) Contribution to consolidated net *Surplus (Deficit) (Item 1.4) for the previous corresponding half year/full year	
(e) Contribution to consolidated net *Surplus (Deficit) (Item 1.4) from sale of subsidiary	\$

## 8 REPORTS FOR INDUSTRY AND GEOGRAPHICAL SEGMENTS

The group develops and manufactures wind turbines in New Zealand.

### Consolidated Balance Sheets

	At end of current full year \$NZ'000	As shown in last Annual Report \$NZ'000
<b>9.1 CURRENT ASSETS:</b>		
(a) Cash	11,727	5,442
(b) Trade and other receivables	4,730	6,630
(c) Term Deposits		
(d) Inventories	10,255	5,889
(e) Other assets, current	464	164
<b>TOTAL CURRENT ASSETS</b>	<b>27,176</b>	<b>18,125</b>
<b>9.1 NON-CURRENT ASSETS</b>		
(a) Trade receivables		
(b) Investments	2,492	2,790
(c) Inventories		
(d) Property, plant and equipment	1,004	1,162
(e) Turbine deposits		
(f) Capital work in progress		
(g) Goodwill	105	105
(h) Deferred Taxation Assets		
(i) Other Intangible Assets	2,902	1,556
(j) Other assets, non current		
<b>9.2 TOTAL NON-CURRENT ASSETS</b>	<b>6,503</b>	<b>5,613</b>
<b>9.3 TOTAL ASSETS</b>	<b>33,679</b>	<b>23,738</b>
<b>9.4 CURRENT LIABILITIES</b>		
(a) Trade Creditors	3,098	2,872
(b) Income tax		
(c) Secured loans		
(d) Unsecured loans		
(e) Provisions, current	2,551	441
(f) Other liabilities, current	11,765	13,150

<b>TOTAL CURRENT LIABILITIES</b>	<b>17,414</b>	<b>16,463</b>
<b>9.5 NON-CURRENT LIABILITIES</b>		
(a) Accounts payable, non-current		
(b) Secured loans		
(c) Unsecured loans		
(d) Provisions, non-current		
(e) Deferred taxation liability		
(f) Other liabilities, non-current		
<b>9.6 TOTAL NON-CURRENT LIABILITIES</b>		
<b>9.7 TOTAL LIABILITIES</b>	<b>17,414</b>	<b>16,463</b>
<b>9.8 NET ASSETS</b>	16,265	7,275
<b>9.9 SHAREHOLDERS' EQUITY</b>		
(a) Share capital	28,400	17,785
(b) Reserves		
(i) Revaluation reserve		
(ii) Other reserves	1,553	1,943
(c) Retained Surplus (Accumulated Deficit)	(13,688)	(12,453)
<b>9.10 SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MEMBERS OF THE LISTED ISSUER</b>		
(a) Minority equity interests in subsidiaries		
<b>9.11 TOTAL SHAREHOLDERS' EQUITY</b>	<b>16,265</b>	<b>7,275</b>
(a) Returns on Assets (%) (EBIT divided by Total Assets)	(3.7)	(8.6)
(b) Return on Equity (%) (Net Income divided by Shareholders' Equity)	(7.6)	(28.1)
(c) Debt to Equity Ratio (%) (Total Liabilities divided by Shareholders' Equity)	107.1	226.3

**Consolidated  
Cash Flow Statement**

	Current full year \$NZ'000	Previous corresponding full year \$NZ'000
<b>10 CASH FLOWS RELATING TO OPERATING ACTIVITIES</b>		
(a) Receipts from customers	31,187	14,940
(b) Interest received	669	536
(c) Funding Received	42	74
(d) Payments to suppliers and employees	(33,543)	( 14,440)
(e) Interest paid		(3)
(f) Foreign Currency Losses	(29)	
(g) Other cash flows relating to operating activities	(791)	(1,017)
<b>NET OPERATING CASH FLOWS</b>	<b>(2,465)</b>	<b>90</b>
<b>11 CASH FLOWS RELATING TO INVESTING ACTIVITIES</b>		
(a) Disbursed from Term Deposit Accounts		
(b) Cash proceeds from sale of investments	13	30
(c) Loans repaid by other entities		
(d) Cash paid for purchases of property, plant and equipment	(642)	(809)
(e) Interest paid - capitalised		
(f) Cash paid for purchases of equity investments		
(g) Purchase of Intangible Asset	(1,235)	(1,514)
(h) Other cash flows relating to investing activities		
<b>NET INVESTING CASH FLOWS</b>	<b>(1,864)</b>	<b>(2,293)</b>
<b>12 CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>		
(a) Cash proceeds from issue of shares, options, etc. (net)	10,614	5,552
(b) Borrowings		
(c) Repayment of borrowings		(63)

(d) Advance to Equity Partners		(5)
(e) Other cash flows relating to financing activities		
<b>NET FINANCING CASH FLOWS</b>	<b>10,614</b>	<b>5,484</b>

<b>13 NET INCREASE (DECREASE IN CASH HELD)</b>	6,285	3,281
(a) Cash at beginning of full year	5,442	2,161
(b) Exchange rate adjustments to Item 12.3(a) above		
<b>(c) CASH AT END OF FULL YEAR</b>	<b>11,727</b>	<b>5,442</b>

**14 NON-CASH FINANCING AND INVESTING ACTIVITIES**

Provide details of financing and investing transactions which have had a material effect on group assets and liabilities but did not involve cash flows: None

**15 RECONCILIATION OF CASH**

For the purposes of the above Statement of cash flows, cash includes:

Cash on hand, at bank and funds on deposit at banks

Current full year NZ\$'000	Previous corresponding full year NZ\$'000
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Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the financial statements as follows:

Cash on hand and at bank

11,727 5,442

Deposits at call

Bank overdraft

Other - Term Deposits

**11,727 5,442**

**16 EQUITY ACCOUNTED INVESTMENTS IN ASSOCIATES**

Information attributable to the reporting group's share of investments in associates and other material interests is to be disclosed by way of separate note below (refer FRS-38 Accounting for Investments in Associates).

**16.1 GROUP SHARE OF RESULTS OF ASSOCIATES**

Wind Gears Limited - 50%

**Equity Earnings**

(a) OPERATING SURPLUS (DEFICIT) BEFORE TAX

(b) Less tax

(c) OPERATING SURPLUS (DEFICIT) AFTER TAX

(i) Extraordinary items

(d) NET SURPLUS (DEFICIT) AND EXTRAORDINARY ITEMS AFTER TAX

Current full year \$NZ'000	Previous corresponding full year NZ\$'000
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**16.2 MATERIAL INTERESTS IN CORPORATIONS NOT BEING SUBSIDIARIES**

(a) The group has a material (from group's viewpoint) interest in the following corporations:

Name	Percentage of ordinary shares held at end of full Year		Contribution to net surplus (Item 1.5)	Contribution to net surplus (Item 1.5)
	Current full Year	Previous Corresponding full Year	Current full Year NZ\$'000	Previous corresponding full Year NZ\$'000
<b>Equity Accounted Associates</b>				
<b>Wind Gears Limited</b>	50.0%	50.0%	92	-

<b>Other Material Interests</b>				

(b) Investments in Associates

	Current Full Year \$NZ'000	Previous corresponding full year \$NZ'000
Carrying value of investments in associates beginning of financial year		
Share of changes in associates' post acquisition surpluses/and reserves:		
- Retained surplus		
- Reserves		
Net goodwill amortisation and impairment adjustments in the period	-	
Less Dividends received in the period	-	
Equity carrying value of investments at the end of half year/full year	5	5
Amount of goodwill included in carrying value at end of that half year/full year	-	

**17 ISSUED AND QUOTED SECURITIES AT END OF CURRENT FULL YEAR**

Category of Securities	Number	Number Quoted
<b>PREFERENCE SHARES:</b>		
# (Description)	-----	-----
Issued during current full year	-----	-----
<b>ORDINARY SHARES:</b>		
<b>Beginning of full year</b>	-----	8,541,423
Issued during current full year	-----	3,452,066
End of full year	-----	11,993,489
<b>CONVERTIBLE NOTES</b>		
# (Description)	-----	-----
<b>Nil</b>	-----	-----
Issued during current full year	-----	-----
<b>OPTIONS:</b>		On Issue
Shareholder Options	-----	-----
Employee Options	-----	205,966
Issued during current full year	-----	-----
<b>DEBENTURES - Totals only:</b>	\$	-----

**UNSECURED NOTES - Totals only:**

**OTHER SECURITIES**

\$

\$

\$

# Description includes rate of dividend or interest and any redemption or conversion rights together with the prices and dates thereof.

## 18 COMMENTS BY DIRECTORS

If no report in any section, state NIL. If insufficient space below, provide details in the form of notes to be attached to this report.

- (a) Material factors affecting the revenues and expenses of the group for the current year

**Refer to Directors Review**

- (b) Significant trends or events since end of current year

**Refer to Directors Review**

- (c) Changes in accounting policies since last Annual Report to be disclosed

- (d) Critical Accounting Policies - Management believes the following to be critical accounting policies. That is they are both important to the portrayal of the Issuer's financial condition and results, as they require management to make judgments and estimates about matters that they are inherently uncertain

- (e) Management's discussion and analysis of financial condition, result and/or operations (optional) - this section should contain forward looking statements that should outline where these involve risk and uncertainty

**Refer to Directors Review**

- (f) Other comments

**Nil**

## 19 DIVIDEND

- (a) Dividend Yield as at balance date (%) (Annual dividend per share divided by price per share)

**It is proposed that no dividend will be paid**

- (b) Tax Adjusted Dividend Yield as at balance date (%) (Annual net dividend per share divided by price per share)

**n/a**

## 20 ANNUAL MEETING (if full year report)

- (a) To be held in **Christchurch**

- (b) Date **25 November 2009**

Time

**7.00 p.m.**

- (c) Approximate date of availability of Annual Report

If full half year report was approved by resolution of the Board of Directors, please indicate date of meeting:



(signed by) Authorised Officer of Listed Issuer

**14/09/2009**

(date)

\*Delete as required