

# REGISTERED PROSPECTUS

WINDFLOW TECHNOLOGY LIMITED



**WARNING – RESTRICTED DISCLOSURE**

This registered prospectus has been prepared in accordance with the Securities Act (NZX-NZAX Market) Exemption Notice 2005. It may not contain as much information as would ordinarily appear in a registered prospectus prepared in accordance with the requirements of Schedule 1 of the Securities Regulations 1983.

It is strongly recommended that you seek independent professional advice before investing in these securities.

Copies of this registered prospectus, financial statements of the issuer, and other information about the securities offered and the issuer of the securities are available from the issuer's NZAX information portal on the NZAX website, [www.nzx.com](http://www.nzx.com), the issuers Internet website [www.windflow.co.nz](http://www.windflow.co.nz) or free of charge from the issuer on request.





WINDFLOW TECHNOLOGY LIMITED

Prospectus dated 24 October 2007  
for a 1 for 4 Renounceable Rights Issue and with  
each New Share issued, one separately tradable  
Option for an Additional Share

**October / November 2007**

## 1. IMPORTANT INFORMATION

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

### Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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### Choosing an investment adviser

You have the right to request from any investment adviser a written disclosure statement stating his or her experience and qualifications to give advice. That document will tell you:

- Whether the adviser gives advice only about particular types of investments; and
- Whether the advice is limited to the investments offered by one or more particular financial organizations; and
- Whether the adviser will receive a commission or other benefit from advising you.

You are strongly encouraged to request that statement. An investment adviser commits an offence if he or she does not provide you with a written disclosure statement within five working days of your request. You must make the request at the time the advice is given or within one month of receiving the advice.

In addition:

- if an investment adviser has any conviction for dishonesty or has been adjudged bankrupt, he or she must tell you this in writing; and
- if an investment adviser receives any money or assets on your behalf, he or she must tell you in writing the methods employed for this purpose.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes.



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### 3. CHAIRMAN'S LETTER

#### Dear Shareholder,

I am pleased to introduce to our shareholders on behalf of the Directors of Windflow Technology Limited ("the Company"), a 1 for 4 renounceable rights issue at \$3.00 per "New Share". With each New Share issued the subscriber shall also receive an Option to subscribe to one "Additional Share" at a price of \$3.30 each with the Option to be exercised on 30 September 2008.

There are now five Windflow 500 turbines installed at the Te Rere Hau windfarm (in the Tararuas, near Palmerston North) which is owned by a joint venture between NZ Windfarms Limited and a consortium of Babcock & Brown, who are the fourth largest windfarm owner in the world<sup>1</sup>, and NP Power.

After reviewing the performance of those five turbines, and the progress that Windflow Technology has made towards getting IEC Certification for the Windflow 500, the joint venture (which is independent from Windflow Technology) recently ordered a further 16 turbines to continue the development of the Te Rere Hau windfarm – the first to be built with New Zealand designed and manufactured wind turbines. The Company now has orders for 44 Windflow 500 turbines which are due to be manufactured and delivered over the next 18 months.

The latest order for 16 turbines (part of the 44 mentioned in the previous paragraph) is seen by the Directors of Windflow Technology as an order that signals the completion of the transformation of Windflow Technology from an industrial design company into a design and manufacturing company. Orders for the 48 further turbines needed to complete the Te Rere Hau windfarm are expected as further progress is made towards the Windflow 500 obtaining its IEC Certification and once the five turbines already installed have a longer operational history. The gross revenue of the confirmed orders for 44 turbines will be in excess of \$30 million spread over the next 18 months. The Directors are expecting the accounts for the 2008/2009 financial year to show a gross profit from the sale of the 16 most recently ordered turbines.

Additional working capital would enable the Company to more efficiently fulfil the confirmed and expected orders and complete the IEC Certification process.

The measured wind speeds at Te Rere Hau, which in the opinion of the Directors rank it amongst the best wind farm sites in New Zealand, provide an excellent opportunity for Windflow Technology to prove the Windflow 500 turbine in the challenging conditions it was designed for. However, the Company needs to continue to invest in the Windflow 500 to enhance its performance, reduce manufacturing costs, and obtain the full benefit of the investment made to date.

Windflow Technology plans to develop three variations of the Windflow 500 to maximise the return from the investment in the Windflow 500 and to move towards fulfilling Windflow Technology's mission to be a global leader in wind turbine technology innovation. These are the development of:-

- a) a 60 Hz model (New Zealand, Australia and Europe's power supply is 50Hz) to be used in the US market. To enable the sale of turbines in the US the Company has entered into a conditional agreement to purchase from Geoff Henderson the US patent for the torque limiting gearbox for \$250,000. The net cash outflow required to purchase the patent is likely to be \$100,000 with the balance of the purchase price being paid in shares. Further details of this agreement are on page 29.
- b) a wind diesel model for use in island and other non-grid based applications around the world. Due to its use of a synchronous generator, the Windflow 500 can be readily adapted to operate with a diesel generator, where the diesel generator can be turned off in certain wind conditions. Other turbines not using a synchronous generator (the vast majority of the turbines currently sold around the world) cannot do this.
- c) a low wind speed model for use in those sites that are significantly less windy than the best sites in New Zealand.

<sup>1</sup>"Babcock & Brown rose to the fourth largest wind farm owner in 2005 . . ." Emerging Energy Research Press Release Feb 2006. [http://www.emerging-energy.com/pr\\_feb\\_2006.html](http://www.emerging-energy.com/pr_feb_2006.html). The graph in the July 2007 Emerging Energy Research Press Release also shows that Babcock & Brown was the 4th largest wind farm owner in 2006. [http://www.emerging-energy.com/pr\\_jul11\\_2007.html](http://www.emerging-energy.com/pr_jul11_2007.html)

The total cost of these developments over the next three years, together with the continued investment in the existing model, is estimated by the Directors to be \$8 million including \$2 million in related market development costs.

The Directors are keen to acknowledge the support of the Company's loyal shareholder base and this rights issue provides an opportunity to the Company's existing shareholders to increase their investment at a discount from the recent market price and at the same time obtain an Option to further increase their stake in the Company in September 2008, again at a discount to the recent market price.

The issue is renounceable so that shareholders who don't want to, or who cannot, take up their entitlement have an opportunity to sell their Rights. Those shareholders who take up their Rights will also have the opportunity to sell their Options as these will be separately listed on the NZAX until shortly before the Exercise Date of 30 September 2008.



A handwritten signature in black ink, appearing to read 'Barrie Leay', written over a horizontal line.

**Barrie Leay**  
Chairman



## 4. OFFER SUMMARY & IMPORTANT DATES

### 4.1 Offer Description

Rights issue entitlement basis	1 "New Share" for every 4 Existing Shares and with each New Share, one separately tradable Option for one "Additional Share".
Rights issue price per New Share	\$3.00 payable on 30 November 2007
Option exercise price per Additional Share	\$3.30 payable on 30 September 2008
Shares on issue prior to the Offer	6,723,691
Rights issue shares offered	1,680,923
Rights issue size	\$5.04 million
Maximum number of Options issued	1,680,923
Maximum subscriptions from Options	\$5.55 million

This Offer Document is for a renounceable pro-rata one for four rights issue by Windflow Technology Limited ("Windflow Technology" or "the Company") of up to 1,680,923 New Shares at a price of \$3.00 each to existing shareholders. With each New Share issued the subscriber shall also receive an Option to subscribe to one Additional Share at a price of \$3.30 each with the Option exercisable on 30 September 2008. To exercise the Options, shareholders should give notice in September 2008 of the exercise of the Options and pay the subscription amount for the Additional Shares. All cheques will be presented on or immediately after 30 September 2008 and all Additional Shares will be allotted and issued between 30 September and 7 October 2008. For more information on how to exercise the Options see section 9.2 on page 24.

The Rights to the New Shares and with each New Share, one separately tradable Option are being offered on the basis of the one New Share and with each New Share, one separately tradable Option for every four Existing Shares held on the Record Date (5:00 pm on Friday 2 November 2007).

Holders of Existing Shares on the Record Date will be entitled to the Rights at no cost. The New Shares are to be issued for \$3.00 each payable in full in cash on application. New Shares issued pursuant to this offer will rank equally with Existing Shares. Allotment of the New Shares will be completed and FASTER statements will be sent to Shareholders on or prior to Friday 7 December 2007.

The Option to subscribe for one Additional Share for each New Share will be issued to subscribers for the New Shares at no additional cost beyond the \$3.00 payable for the New Share.

Additional Shares issued pursuant to this offer will rank equally with the Existing Shares and the New Shares. Shareholders who exercise the Option and who pay the \$3.30 subscription price for the Additional Shares on 30 September 2008 will have the Additional Shares allotted and FASTER statements sent to them on or prior to 7 October 2008.

#### Quotation of Rights on NZAX

Application has been made to NZX to list the Rights on the NZAX market. All of the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However NZX accepts no responsibility for any statement in this Offer Document. Quotation of the Rights is expected to occur on the NZAX market on Monday 5 November 2007 under the code WTLRB and will continue until 28 November 2007.

#### Quotation of Options on NZAX

Application has been made to NZX to list the Options on the NZAX market. All of the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However NZX accepts no responsibility for any statement in this Offer Document. Quotation of the Options is expected to occur on the NZAX market on Monday 10 December 2007 under the code WTLOA and will continue until 26 September 2008.

## 4.2 Offer Timetable

Record date for the determination of entitlement to Rights	2 November 2007
Rights issue opens and existing shares quoted "ex-Rights" on the NZAX market	5 November 2007
Letters of Rights Entitlement / Prospectus sent to each Windflow Technology shareholder	6 November 2007
Rights trading on the NZAX market ceases	28 November 2007
Closing date for receipt of acceptances and renunciations Payment due	30 November 2007
Allotment and Issue of New Shares and Options.	7 December 2007
Trading of New Shares and Options commences on the NZAX market	10 December 2007
Notice of Exercise of Option can be given from	1 September 2008
Options Trading ceases on the NZAX market	26 September 2008
Option Exercise Date for Additional Shares	30 September 2008
Allotment and Issue of Additional Shares	7 October 2008
Additional Shares commence Trading on NZAX	8 October 2008

## Offer Summary and Important Dates

<b>Friday 2 Nov 07</b> Record Date - Determines Entitlement to Rights	<b>Wednesday 28 Nov 07</b> Rights trading ceases	<b>Friday 7 Dec 07</b> New Shares & Options are allotted and issued	<b>Friday 26 Sept 08</b> Options trading ceases on NZAX	<b>Tuesday 7 Oct 08</b> Additional shares allotted and issued	
<b>Monday 5 Nov 07</b> Shares trade ex-rights. Rights listed On NZAX	<b>Friday 30 Nov 07</b> Closing Date for Rights Issue	<b>Monday 10 Dec 07</b> Options and New Shares listed on NZAX	<b>Monday 1 Sept 08</b> notice of exercise of Option can be given	<b>Tuesday 30 Sept 08</b> Closing date for Options. Cheques presented	<b>Wednesday 8 Oct 08</b> Additional Shares listed on NZAX

### How to Apply

Instructions on how to apply for New Shares, and how to exercise the Options and subscribe for the Additional Shares, are contained in section 9 entitled 'Actions Required by Shareholders'. An Entitlement and Acceptance Form for the Rights accompanies this Offering Document. An Entitlement and Exercise Form will be forwarded to all registered Option Holders in late August 2008.

### Example

A shareholder holds 5,000 Windflow Technology Limited shares at 5:00 pm on 2 November 2007. That shareholder is entitled to 1,250 Rights. If that shareholder takes up the Rights they will need to pay \$3,750 to Windflow Technology Limited by 30 November 2007 and the shareholder will be allotted 1,250 New Shares increasing the number of shares they hold to 6,250. That shareholder will also be allotted 1,250 Options. If that shareholder takes up the Options they will need to pay \$4,125 to Windflow Technology Limited by 30 September 2008 and the shareholder will be allotted 1,250 Additional Shares increasing the number of shares held to 7,500.

## 5. WINDFLOW TECHNOLOGY LIMITED



### WINDFLOW TECHNOLOGY LIMITED

#### 5.1 Introduction

In the six years since its initial public offering in 2001, Windflow Technology has made the successful transition from a small start-up company with a vision to a dynamic wind turbine design and manufacturing company.

At this point the Company has:-

- Six turbines operating (five at the Te Rere Hau site near Palmerston North and one at Gebbies Pass on Banks Peninsula, near Christchurch).
- Confirmed orders for 44 further turbines with the first 14 of those currently being manufactured. These turbines will be installed at the Te Rere Hau windfarm which is being developed with the financial backing of substantial energy companies Babcock & Brown and Vector.
- Made progress towards the achievement of Class 1A certification (the most rigorous certification) under the International Electrotechnical Commission (IEC) Certification system. Obtaining IEC certification under one of the available classes for wind turbines is a key requirement for many purchasers of turbines. The Directors believe that many turbines are only certified to Class 2 under the second edition of the IEC rules and that the Windflow 500 may become the first turbine to obtain Class 1A certification under the third edition (2005) IEC rules.
- Increased manufacturing capacity to meet the existing orders.
- Active interest in the Windflow 500 turbine and the advantages it brings, both from New Zealand and internationally.

## 5.2 Competitive Advantages of the Windflow 500 Turbine

The Windflow 500 features a number of technological benefits, which are summarised below:

- **Torque Limiting Gearbox**

Gusty, turbulent winds mean that the torque (twisting force) applied to a conventional gearbox is erratic and causes considerable overloads.

Windflow Technology's patented Torque Limiting Gearbox uses a hydraulic system to limit torque fluctuations and allow the rotor's rotational speed to vary independently from that of the generator shaft.

The Torque Limiting Gearbox system therefore significantly reduces the torque on the turbine shaft and gearbox and results in a gearbox that, in the opinion of the Directors, is more robust, compact and cost effective than other gearbox designs. The constant output speed allows Windflow Technology to use a standard synchronous generator which has significant grid integration benefits (see below).

Windflow Technology holds a licence for the Torque Limiting Gearbox in New Zealand and Australia and has an agreement with Geoff Henderson, the inventor, to acquire the patent rights for the United States, subject to Windflow Technology raising a minimum \$1 million of new capital by 31 March 2008 [see page 29 for more details of the agreement].

- **Synchronous Generator**

The Windflow 500 uses a synchronous generator directly on line which is standard in the power industry but almost unique in the wind industry. Only one other small manufacturer is currently developing turbines that use synchronous generators. This gives the Windflow 500 turbine significant grid integration advantages compared to other turbines

which generally use induction or non-synchronous generators.

A synchronous generator avoids the need for complex and expensive power connection equipment and voltage support equipment, and allows the electricity generated to be fed directly into the electricity network.

In addition, the synchronous generator can be used to provide voltage support for the local network. This facility does not depend on wind availability. This advantage is particularly important in countries with weak electrical grids and where windpower has become a significant proportion of electricity generation.

- **Two-Bladed Teetering Design**

The Windflow 500's two-bladed rotor is significantly lighter than a three-bladed rotor which results in cost savings throughout the whole design including the tower and foundation.

Teetering significantly reduces the bending forces on the turbine shaft, gearbox, tower and foundations. It is only possible with a two bladed turbine. The turbine's rotor is designed to teeter up to 6 degrees on either side of the normal plane of rotation in response to varying wind forces. Pitch-teeter coupling is an important feature which stabilises teetering during operation. Turbines incorporating this feature have been operating in the United Kingdom since 1988.

- **Advantages of Smaller Turbines**

The Windflow 500 stands at 47 m from tower base to blade tip, compared with large turbines, for example a 3.6 MW turbine, which stands at 160 m from tower base to tip.



3.6 MW turbine (160 m high) superimposed over a photograph of Dunedin's Octagon with further 3.6 MW turbines on the ridge in background



Windflow 500 (47 m high) superimposed over a photograph of Dunedin's Octagon with further Windflow 500 turbines on the ridge in background



The Windflow 500 components can be transported on 4 to 5 metre wide roads using standard sized trucks and can be installed using a readily available 80 tonne crane. In comparison, multi-megawatt sized turbines can require 10 metre wide roads and 400 tonne cranes.

Smaller machines are usually considered to have a lower visual impact overall, and the Windflow 500's size means it does not require aviation lighting.

The Directors believe that these are important advantages for wind farm developers in regards to obtaining resource consents, and the low cost and simplicity of transport and installation. The Directors believe that large multi-megawatt sized turbines can be justified when foundation costs are a substantial part of the installation cost (e.g. installing turbines in coastal waters) or where tall towers are needed to capture the available wind (e.g. higher wind shear sites). The Directors believe that neither of those factors are present at most wind sites being developed around the Pacific.

### 5.3 Manufacturing Capacity

Throughout its start-up stage, it was Windflow Technology's plan that it would operate as a "virtual manufacturer" with all of its supply and assembly work being undertaken by 'arms length' suppliers. This approach has now been modified so that Windflow Technology will either own or hold significant control over certain key elements of the turbine manufacture, namely blades, gearboxes, and nacelle assembly. This strategy is seen as both prudent risk management as well as a measure that will improve cost control.

Windflow Technology has an agreement with Tait-Brooking Contracting Limited which holds the other 50% of the share capital of Wind Blades Limited, whereby it will acquire the balance of the shares in Wind Blades Limited in return for the issue of 21,000 new Windflow Technology shares to Tait-Brooking Contracting Limited. Settlement of the agreement with Tait-Brooking Contracting Limited will take place via the issue of Windflow Technology shares to that company after the record date (i.e. those shares would not be entitled to rights).

The wind blade operation is presently producing one blade every four working days from its premises in Auckland. A move to a larger factory is being contemplated that will see production doubled. There are already 10 staff members working within this operation.

Supply arrangements with the other key component suppliers, including AH Gears Limited, remain in place. The gearbox operation is now set up to produce one gearbox every week and plans are in place to double this in due course.

Windflow Technology has taken the lease of industrial/office premises in Mandeville Street, Christchurch, which has become the site of the engineering office and nacelle assembly operation. The move allows all of Windflow Technology's Christchurch based staff to be located in the same premises.

Windflow Technology now has the capacity to produce approximately one turbine every week (five per month). With the substantial orders waiting to be filled Windflow Technology is able to move to "continuous manufacture" and away from the previous batch approach which had long gaps between batches. The Company has recently seen the advantages of continuous manufacture (e.g. continuity in staff numbers and skills) and the associated economies of scale with the blade manufacturing operation (Wind Blades Limited) which has been operating on this basis for a large part of this calendar year.

## 5.4 Market for Windpower

The wind energy market is international and growing significantly.

- Forecasts covering the period up to 2011 indicate average growth in annual installation over that period of 17.4% p.a (see Figure 1 below).
- Growth centres: The centres showing the fastest growth are expected to be the USA, India and China, with Europe maintaining high demand.
- 2006 recorded the highest installation of wind power ever - 15,016 MW of new capacity, 30% above 2005.
- Global drivers are stronger than ever: climate change and security of supply were top of the political agenda during 2006 and into 2007.
- The market value of the industry over the next five years will total some US\$ 186.4 billion.

[Source: BTM Consult ApS - March 2007 publicly available at <http://www.btm.dk/documents/pressrelease.pdf>]

## 5.5 Future Profitability

The Directors are very aware that the Company needs to sell its turbines profitably in the near future. The Directors expect that Windflow Technology will record a gross profit on the sale of the 16 turbines to Te Rere Hau which were ordered in October 2007 and which are due to be delivered in the financial year ending 30 June 2009.

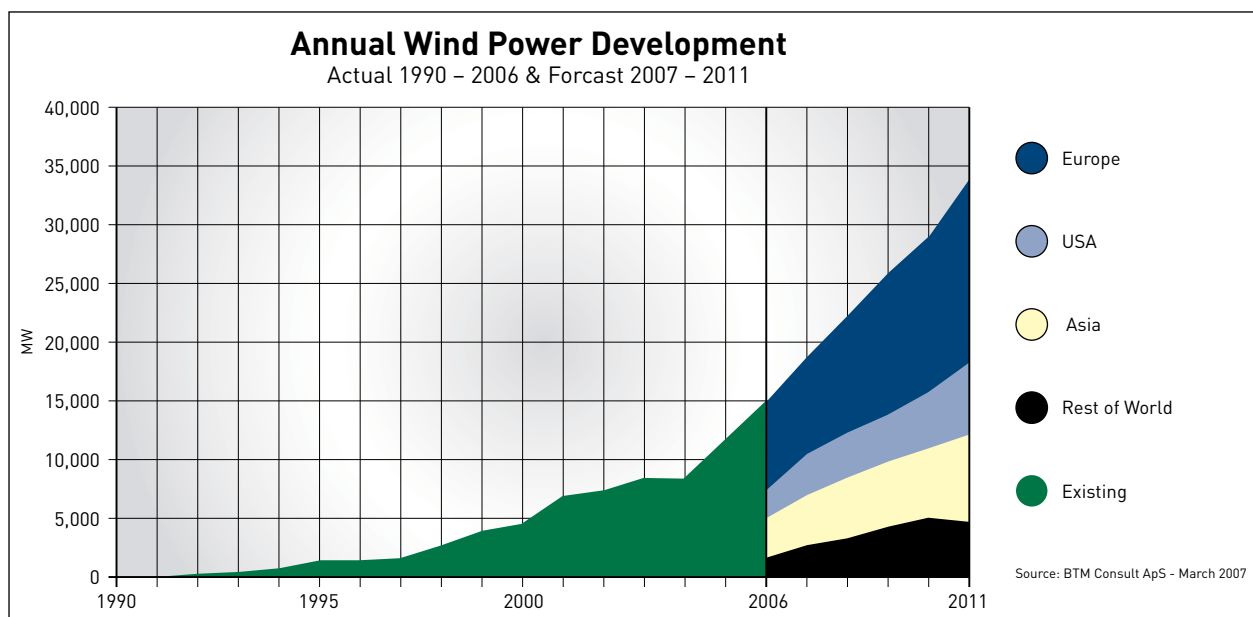


Figure 1 Annual Wind Power Installations (Actual to 2006 - Forecast to 2011)



## 6. APPLICATION OF PROCEEDS OF RIGHTS ISSUE



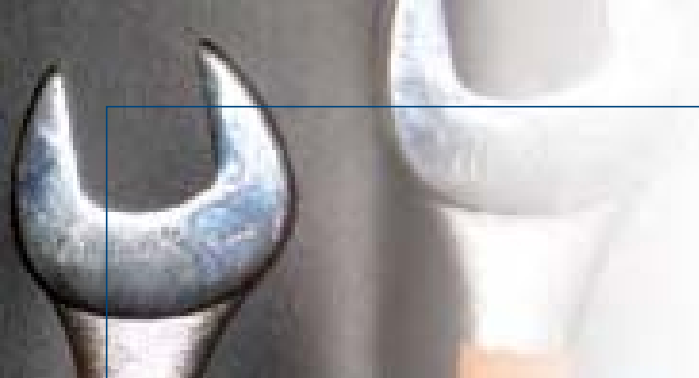
The capital raising is for a maximum total of \$10.59 million. Up to \$5.04 million may be raised by the subscription for New Shares on or before 30 November 2007 and up to a further \$5.55 million may be raised by the exercise of the Options and the subscription for Additional Shares on 30 September 2008.

Initially the first tranche of funds raised will be allocated as working capital for the purpose of the day to day operation of Windflow Technology particularly the fulfilling of the outstanding orders for 44 turbines worth in excess of \$30 million of gross revenue and the completion of the IEC Certification process. This will reduce the need for other funding for working capital.

Over the following couple of years as retentions are released from the earlier orders, as progress payments and deposits are received from the latest and expected future orders, as the second tranche of funds are received from the exercise of the Options and as engineering resources are released from the IEC Certification process approximately \$6 million would be spent on engineering research and development and \$2 million for market development costs.

Approximately \$1.5 million of the \$6 million which would be spent on engineering research and development would be used to fund development work relating to the enhancement of the performance of the Windflow 500, reducing its manufacturing cost and to fund future development opportunities if and when they present themselves (for example the possible refit of existing turbines with a Windflow TLG gearbox which has been raised as a possibility by another small turbine manufacturer).

The remaining \$4.5 million (together with the \$2 million for market development costs) would be applied to a staged development programme that would be tightly linked to the following market opportunities.



## 6.1 Development of a 60 Hz version of the Windflow 500

### Business Opportunity

Electricity systems worldwide run on either 50 Hz or 60 Hz. Windflow Technology's initial target markets of New Zealand and Australia (as well as many Pacific Islands, Chile, and parts of Asia) run on 50 Hz therefore the current Windflow 500 has been designed as a 50 Hz version.

Other potential markets for the Windflow 500 use 60 Hz electricity systems, including the growing US market which Windflow Technology intends to enter. Other potential markets that use 60 Hz include Canada, Central/South America, and certain South Pacific countries.

The market size of wind energy in the US alone in 2006 was 2,454 MW installed (US\$3.7 billion). Due to the favourable political climate for renewable energy, (including proposed targets of 20% of renewable energy by 2020), it is expected that the annual market size will continue to grow. The historic growth rate over the period from 1999 to 2006 was 24 % per year<sup>2</sup>.

Within the US market, Windflow Technology is targeting small to medium sized wind farms (approximately 50 MW or less) because developers of these projects are having difficulty sourcing turbines due to other manufacturers' production capacity being bought out by large utilities. Sub-megawatt turbines, such as the Windflow 500, have particular economic advantages for smaller projects due to the ease of transport and installation as explained earlier in this document. Arguably the visual impact of smaller turbines is less compared to taller turbines, which can be an advantage for community wind projects.

It is also a market that is largely being ignored by the dominant wind turbine manufacturers. 'Only a few U.S. and foreign suppliers currently have products available to fill this growing market niche.' (*Windpower Monthly July 2007*).

The size of the USA's small to medium wind farm market in 2007 is estimated at 600 MW per year (Emerging Energy Research US Market Study 2007).

The Directors of Windflow Technology believe that the Windflow 500 will be more cost-competitive than other sub-megawatt sized turbines in the USA and also competitive compared to larger turbines based on installed costs outlined in the Annual Report on US Wind Power: Installation, Cost and Performance Trends: 2006. US Department of Energy, May 2007.

Windflow Technology intends to target sales in the USA of approximately 15 – 30 MW per year initially (which equates to 5 – 15% of US wind farms under 50 MW in size) assuming the turbines are exported to the USA from New Zealand. The gross revenue on 30 MW of sales in a year (60 Windflow 500 turbines) would be approximately NZ\$50 million. If market demand for the Windflow 500 exceeds 50 MW per year, Windflow Technology will consider setting up US manufacture (potentially as a joint venture or other structure) to take further advantage of this market niche. Having a demonstrated 60 Hz design will be a precursor to any potential business arrangements.

### Research and Development Requirements

The Windflow 500 therefore needs to be adapted to a 60 Hz version which involves design work for a new Stage 3 gear pair to give 1800 rpm output. Other aspects of the turbine will have to be reviewed and modified, particularly a change from a 50 Hz to a 60 Hz generator and other electrical specifications and control algorithms for 60 Hz operation. A gearbox test rig that can run at either 1800 or 1500 rpm will be required.

Windflow Technology knows of at least two sites in the US where a 60 Hz machine (or machines) could possibly be installed as demonstration models and is currently corresponding with parties in the US regarding those sites. No agreements have been signed at this stage.

The cost of developing and testing this model, including the capital cost of manufacturing and installing a demonstration turbine, is estimated to be \$1.4 million. Windflow Technology expects to recover some of these costs from either selling electricity from the turbine or on-selling the turbine.

Windflow Technology will also need to complete the acquisition of the US patent rights from Geoff Henderson. This transaction has been signalled a number of times over recent years. The Company has a binding but conditional agreement with Geoff Henderson to purchase the US patent rights. Further details of this agreement are on page 29 of this prospectus.

While the Directors would be disappointed if the agreement could not be made unconditional, development of the 60 Hz version may even proceed on a delayed timetable as there are markets for such a turbine that would not be dependent on the purchase of the patent rights. The patent rights expire in May 2011.

<sup>2</sup> Annual Report on US Wind Power Installation, Cost and Performance Trends: 2006



## 6.2 Development of a Wind-diesel Variant of the Windflow 500

### Business Opportunity

Islands, and other isolated electrical grids that rely on diesel for electricity generation, are increasingly wishing to utilize renewable wind or solar power when it is available, and use the diesel as a back up. Many countries with remote area power systems are establishing policies and programmes to decrease emissions, reduce use of expensive diesel fuel, and increase their energy security through renewable energy.

The wind-diesel market has been identified by the Directors as a significant growth opportunity internationally, and one to which the Windflow 500 turbine is particularly well suited.

- The Windflow 500's size makes it easier to transport and install in remote areas compared to larger turbines.
- Its use of a synchronous generator to provide voltage control enables it to offset a higher proportion of diesel fuel than most other turbines (which use different generators and need additional equipment).
- As the Windflow 500 is designed as a Class 1A turbine it is also designed to withstand very strong winds that are common during 'cyclone season' in South Pacific islands and certain isolated areas in Asia.

Windflow Technology is already in discussions with parties in New Zealand, Australia, and the Pacific Islands that are seeking wind-diesel solutions and are having difficulty acquiring suitable technology.

Other countries identified with good potential for wind-diesel hybrid power systems that New Zealand has a close geographic proximity to include: Indonesia (small island grids); Philippines (small island grids); Brazil (northeast); China (western regions, islands); Latin America (Argentina, Brazil, Chile, Peru)<sup>3</sup>.

The Directors believe that the commercial opportunities for wind-diesel installations are growing, few turbine manufacturers are providing suitable technology, and the Company is well placed to enter this market from a technical advantage as well as geographic perspective.

<sup>3</sup> Wind/Diesel Hybrid Technology for International Development: Opportunities and Constraints. Jerome Weingart and Associates. Prepared for US National Renewable Energy Laboratory (NREL). Presented at Wind-Diesel (September 29-30 2004), Alaska A GVEP Partner Event



## Research and Development Requirements

In order to be able to take advantage of these opportunities, it is necessary for the Company to be able to comply with requirements for power modulation, fault ride through, and frequency support capabilities. Changes to the control system would be developed to suit the requirements of each system.

The cost of modelling and designing these capabilities is approximately \$70,000. Windflow Technology intends to fund a demonstration model at a cost of approximately \$1 million to show the wind-diesel capabilities in the field which will give additional confidence to potential customers.

## 6.3 Development of a Low Variable Speed Version of the Windflow 500

### Business Opportunity

Wind speeds differ throughout all countries, including New Zealand which has some of the highest average wind speeds in the world.

The current Windflow 500 turbine model is designed to meet IEC Class 1A certification requirements and is optimised for sites with high average wind speeds (greater than 8.6 metres per second (m/s)), maximum gusts of 70 m/s and high turbulence<sup>4</sup>. Windflow Technology's target markets for this high-wind optimised turbine includes the majority of sites in New Zealand, Chile, southern Australia, Hawaii, and Alaska, as well as high wind speed sites in other countries.

Figure 3 (next page) shows that 15% of areas within Windflow Technology's target markets have average wind speeds over 8.6 m/s. Although this already equates to a significant market opportunity, the Company believes that it could increase sales of the Windflow 500 by providing a low variable speed (LVS) model which is better optimised for 7 – 8.6 m/s sites. Based on the figures reported in Evaluation of Global Wind Power by Cristina L. Archer and Mark Z. Jacobson (Stanford University, Journal of Geophysical Research - Atmospheres – 2005) the market for such a turbine may be twice the size of the market for a turbine designed to operate at higher average wind speeds.

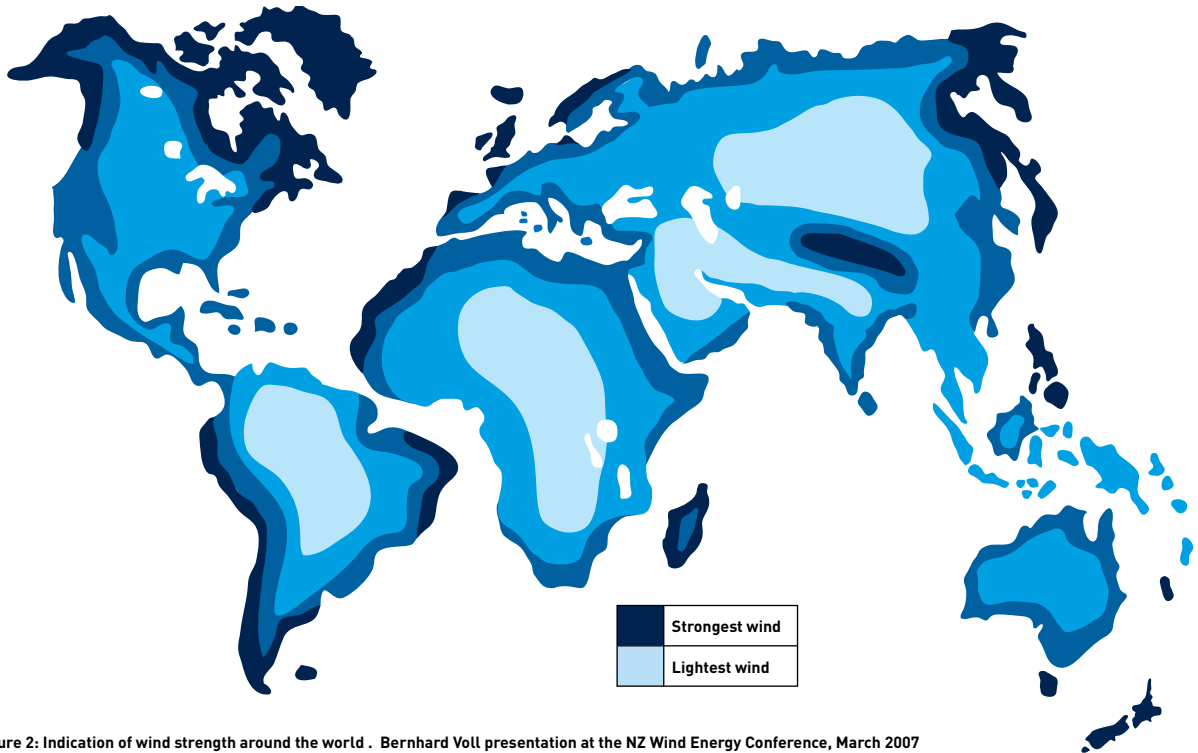
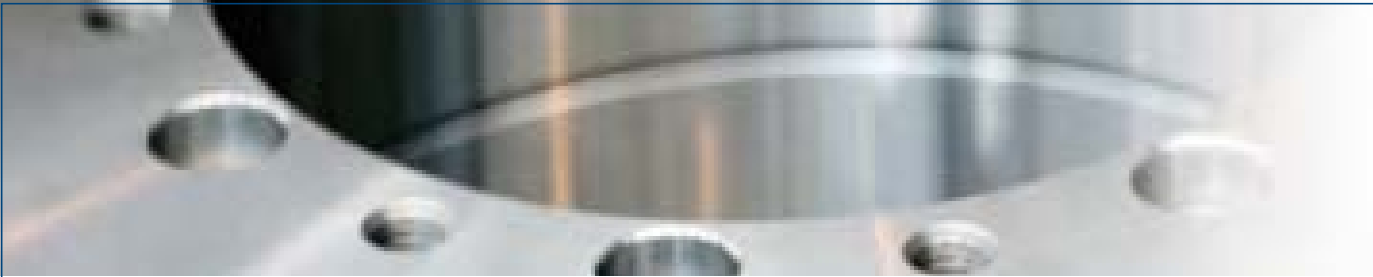
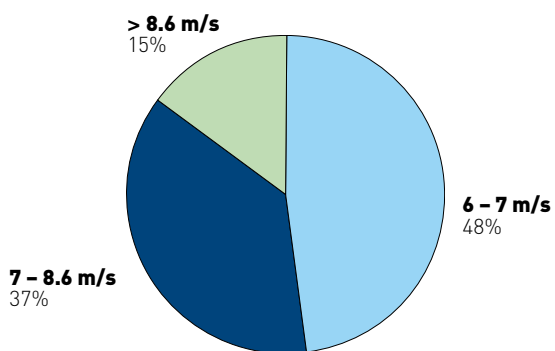


Figure 2: Indication of wind strength around the world . Bernhard Voll presentation at the NZ Wind Energy Conference, March 2007

<sup>4</sup> One metre per second is the same as 2 knots and 8.6 m/s is about 30 km/h and a maximum gust of 70 m/s is about 250 km/h).



This LVS variation of the Windflow 500 would increase the energy capture by approximately 10 % at sites with average wind speeds between 7 – 8.6 m/s. It would also reduce the sound power level of the turbine which could be beneficial for certain sites. This would make the Windflow 500 LVS more cost competitive while still retaining the Class 1A rating and other advantages of the current Windflow 500 model.



**Figure 3: Wind speeds in the Pacific and North/South America.**  
Derived by Windflow Technology based on data from: Evaluation of Global Wind Power by Cristina L. Archer and Mark Z. Jacobson.† Stanford University. Journal of Geophysical Research - Atmospheres - 2005.

## Research and Development Requirements

The LVS variant involves lowering the cut in wind speed from a current 5.5 metres per second to a cut in speed of approximately 4 metres per second. This involves some gearing changes and control system adjustments. The cost of developing and testing this model is estimated to be \$1,500,000 which includes design work, and installing and testing a demonstration version of the Windflow 500 LVS model.

## 6.4 Summary

The Directors believe that aiming for continuous product development and developing the above three variations of the proven Windflow 500 design for specific market opportunities is a prudent business investment and will help Windflow Technology achieve its mission

**‘To be a global leader in wind turbine technology innovation’**







## 7. BUSINESS HIGHLIGHTS

The highlights of the Company's business development to date include:-

- **September 2001:** Initial public offering by Windflow Technology which raised \$2.6 million. This provided the funds to commence developing the prototype and seek a Resource Consent for the first site at Gebbies Pass on Banks Peninsula, near Christchurch.
- **October 2002:** Granting of a Resource Consent to install the prototype Windflow 500 turbine at Gebbies Pass.
- **July 2003:** Installation and start up of the prototype turbine at Gebbies Pass.
- **September 2003:** A 1 for 1 Rights Issue by Windflow Technology which raised just under \$5 million. This provided funds to continue development of the turbine and the Te Rere Hau site.
- **November 2003:** Windflow Technology is one of 'the first fifteen' companies listed on the NZAX market when it opened.
- **December 2003:** Granting of 519,000 tonnes of carbon credits to NZ Windfarms then a wholly owned subsidiary of Windflow Technology for the development of its Te Rere Hau windfarm near Palmerston North.
- **July 2004:** NZ Windfarms Ltd, which had previously been set up as a wholly owned subsidiary of Windflow Technology, commences business to undertake the development of the Te Rere Hau windfarm.
- **February 2005:** Granting of a Resource Consent to NZ Windfarms to develop the Te Rere Hau windfarm.
- **June 2005:** Windflow Technology raises \$3.3 million by way of a further Rights issue.



- **December 2005:** An initial public offering by NZ Windfarms which raised \$4 million followed by listing on the NZAX. Windflow Technology's stake was accordingly reduced from full ownership to a 43% shareholding.
- **August 2006:** A consortium of Babcock & Brown and NP Power enter into a 50-50 joint venture arrangement with NZ Windfarms for the development of Te Rere Hau windfarm plus possible other sites.
- **September 2006:** Installation and start up of the first five turbines (of 97 in total) on the Te Rere Hau windfarm. The farm is opened by the Prime Minister, Rt. Hon.Helen Clark.
- **December 2006:** The Te Rere Hau joint venture orders a further 14 turbines.
- **May 2007:** A subsequent public offering by NZ Windfarms which raised \$75 million including Vector Limited taking a cornerstone stake of 19.9%. Windflow Technology's shareholding in NZ Windfarms is diluted to 3%.
- **June 2007:** Windflow Technology exhibited at the US Wind Energy Conference to increase awareness of the technology benefits to international audiences.
- **June 2007:** The Te Rere Hau joint venture orders a further 14 turbines.
- **September 2007:** Windflow Technology won the Product Design and Innovation award in the Southern Region finals of the 2007 Sustainable Business Awards.
- **September 2007:** The Te Rere Hau joint venture orders a further 16 turbines making a total of 44 Windflow 500 turbines that are due to be installed at Te Rere Hau over the next 18 months.



## 8. TERMS OF THE OFFER

### Issuer

The issuer of the Rights, New Shares, Options and Additional Shares offered in this Offering Document is Windflow Technology Limited ('Windflow Technology' or the 'Company'), a company registered under the Companies Act 1993, having its registered office at the offices of HFK Ltd, Unit 4, 567 Wairakei Road, Christchurch.

### The Offer

New Shares in Windflow Technology are being offered on a renounceable basis at \$3.00 per New Share. When issued the New Shares will rank equally with the Existing Shares. With each New Share issued the subscriber will also receive one separately tradable Option to acquire one Additional Share at a price of \$3.30 per share with the Option exercisable on a single fixed date being 30 September 2008.

Shareholders in the Company's Register of Shareholders as at 5:00 pm on Friday 2 November 2007 may acquire 1 New Share for every 4 Existing Shares held. A total of 1,680,923 New Shares and separately tradable Options for one Additional Share may be issued.

Each shareholder who is offered Rights to subscribe for New Shares may renounce some or all of their Rights and offer them for sale on the NZAX market via a NZX Firm. Each subscriber for New Shares will receive an Option and may offer that Option for sale on the NZAX market via a NZX Firm.

### Purpose of the Offer

The maximum gross proceeds of the capital raising will be approximately \$10.59 million. These funds will be used to fund working capital and a three year development plan for new models of the Windflow 500.

### NZAX Listing and Rights Trading

When issued the New Shares will rank equally with the Existing Shares and will be listed on the NZAX and quoted on completion of allotment procedures.

Application has been made to NZX to have the Rights quoted on the NZAX market so that they may be traded. The listing requirements of NZX that can be complied with on or before the date of distribution of this Offering Document have been complied with. Quotation of Rights on the NZAX is due to commence on Monday 5 November 2007 and continue until 5:00 pm on Wednesday 28 November 2007. However NZX accepts no responsibility for any statement in this Offering Document.

Application has been made to NZX to have the Options quoted on the NZAX market so that they may be traded. The listing requirements of NZX that can be complied with on or before the date of distribution of this Offering Document have been complied with. Quotation of the Options on the NZAX is due to commence on Monday 10 December 2007 and continue until 5:00 pm on 26 September 2008. However NZX accepts no responsibility for any statement in this Offering Document.

### Acceptance of the Offer or Sale of Rights

Shareholders are referred to the section "Actions Required by Shareholders" on pages 22 and 23 of this Offering Document. If a shareholder wishes to exercise their rights a properly completed Renunciation and Acceptance Form, together with payment of the issue price of \$3.00 per New Share, must be received by the Registry no later than 5:00 pm on Friday 30 November 2007.

Shareholders may not apply for any New Shares in excess of the number printed on the Renunciation and Acceptance Form. However additional New Shares may be acquired by purchasing Rights on the NZAX market and exercising those Rights.

### Allotment

The New Shares and the Options will be allotted and issued and FASTER shareholding statements will be issued and mailed as soon as practicable after the Rights Issue closes and no later than five business days after closing.

## Dividends and Voting

The New Shares and Additional Shares offered will, when issued, rank equally in all respects, including as to dividends and voting, with Existing Shares. The Rights and the Options do not have any right to dividends or the proceeds of any winding up. The voting rights (if any) of the Rights and the Options are those that are required by the Companies Act 1993 and the NZAX Listing Rules.

## Overseas Investor Statement

The Offer for New Shares and Options is open to Shareholders with a registered address in New Zealand on the Record Date (5:00 pm on 2 November 2007). The Offer for Additional Shares is open to Optionholders with a registered address in New Zealand on the Exercise Date of 28 November 2008. Those Shareholders outside New Zealand who wish to take up New Shares and Options or Additional Shares should contact the Company.

No person resident outside New Zealand who receives a copy of this Offering Document or a Renunciation and Acceptance Form may treat either of them as an offer or invitation to subscribe for New Shares and Options and/or Additional Shares.

In accordance with NZAX Listing Rule 7.3.4(g) Windflow Technology has determined that it would be unduly onerous to satisfy itself that the offer complied with the legal requirements of jurisdictions outside New Zealand. In accordance with the proviso to NZAX Listing Rule 7.3.4(g) Windflow Technology shall offer for sale on the NZAX Market, via a NZX Firm, the Rights that would, except for this clause, have been allocated to those shareholders whose postal address as at the Record Date is outside of New Zealand and shall account to those shareholders for the proceeds of sale (if any) on a pro rata basis.

Shareholders who are not resident in New Zealand and who hold their shares through a New Zealand resident nominee should not allow their nominee to accept the Offer if to do so would cause the Offer to be contrary to the laws of their country of residence. Such Shareholders can request the Company to sell their Entitlement by contacting the Company via the Company Secretary:-

Ms Terry Moon  
Windflow Technology Limited  
42-44 Mandeville Street,  
PO Box 42-125,  
Christchurch.  
Phone 03 365-8960  
Fax 03 365-1402  
Email: [info@windflow.co.nz](mailto:info@windflow.co.nz)

Any person outside New Zealand who applies for Shares through a New Zealand resident nominee will be deemed to represent and warrant to the Company that the Offer can be lawfully made to their nominee pursuant to this Offer Document.

The Company accepts no responsibility for determining whether a Shareholder is able to participate in the Offer under laws applicable outside New Zealand.



## 9. ACTIONS REQUIRED BY SHAREHOLDERS

### 9.1 Acceptance of New Shares and Options

Accompanying this Offering Document is a **Renunciation and Acceptance Form** showing the number of New Shares and Options to which you are entitled. You may take **one** of the following actions:

- Accept your entitlement in full;
- Purchase further Rights and accept your original entitlement plus additional Rights acquired;
- Sell your entitlement in full;
- Sell part of your entitlement and accept the balance or allow the balance to lapse; or
- Do nothing.

IF YOU DO NOTHING YOUR RIGHTS WILL LAPSE. YOU WILL GET NOTHING FOR THEM AND THE PROPORTION OF YOUR SHAREHOLDING IN THE COMPANY WILL BE DILUTED.

Set out below are instructions on how to take the one action you have selected from the list above.

#### To Accept Your Entitlement In Full

To accept your full entitlement of New Shares and Options, you must:

- Complete and sign the enclosed Renunciation and Acceptance Form, following the instructions on the reverse of that form;
- Attach your cheque or bank draft in New Zealand dollars for the amount required to be paid, made payable to Windflow Technology Limited and crossed 'Not Transferable'; and
- Using the reply paid envelope, forward your completed Renunciation and Acceptance Form and your cheque or bank draft to:

Windflow Technology Limited Rights Issue  
c/- Link Market Services Ltd  
PO Box 384  
Ashburton

Alternatively send it to any NZX Firm in time to be forwarded to the Registrar by 5:00 pm on Friday 30 November 2007.

FOR APPLICATIONS TO BE VALID, RELEVANT DOCUMENTATION, PROPERLY COMPLETED, MUST BE RECEIVED BY THE REGISTRAR NO LATER THAN 5:00 PM ON FRIDAY 30 NOVEMBER 2007. APPLICATIONS CANNOT BE REVOKED OR WITHDRAWN.

#### To Purchase Further Rights and Accept Your Original Entitlement Plus Additional Rights Acquired

To purchase further Rights and accept your original entitlement plus additional Rights acquired, you must:-

- Contact an NZX Firm and place an order on the NZAX market to purchase additional Rights prior to 28 November 2007. Rights may or may not be offered for sale at a price acceptable to yourself and there is no guarantee that you will be able to purchase additional rights;
- You may also be able to purchase Rights privately from other shareholders prior to 28 November 2007;
- Complete and sign the enclosed Renunciation and Acceptance Form, following the instructions on the reverse of that form;
- Attach your cheque or bank draft in New Zealand dollars for the amount required to be paid, made payable to Windflow Technology Limited and crossed 'Not Transferable'; and

- Forward your completed Renunciation and Acceptance Form and your cheque or bank draft for the amount payable (for the total number of Rights) to the NZX Firm you instructed to act for you in time to be forwarded to the Registrar by 5:00 pm on Friday 30 November 2007.

FOR APPLICATIONS TO BE VALID, RELEVANT DOCUMENTATION, PROPERLY COMPLETED, MUST BE RECEIVED BY THE REGISTRAR NO LATER THAN 5:00 PM ON FRIDAY 30 NOVEMBER 2007. APPLICATIONS CANNOT BE REVOKED OR WITHDRAWN.

### **To Sell Your Entitlement In Full**

To sell (or renounce) your full entitlement of New Shares, you should instruct any NZX Firm to sell your Rights during the Rights trading period. There is no guarantee that a purchaser will accept your offer to sell Rights or pay the price that you have specified (if any) for the Rights.

IF YOU WISH TO SELL YOUR RIGHTS, YOU MUST DO SO BEFORE RIGHTS TRADING ON THE NZAX CEASES AT 5:00 PM ON WEDNESDAY 28 NOVEMBER 2007.

### **To Sell Part of Your Entitlement and Accept the Balance**

You may sell (or renounce) your Rights to part of your entitlement and accept the balance. To do so, you will need to do the following:

- Instruct any NZX Firm to sell the number of Rights you wish to renounce. Rights may only be traded until 5:00 pm on Wednesday 28 November 2007;
- Complete and sign the enclosed Renunciation and Acceptance Form for the number of New Shares you wish to accept, following the instructions on the reverse of that form; and
- Attach your cheque or bank draft in New Zealand dollars for the amount payable for the number of New Shares applied for, made payable to Windflow Technology Ltd and crossed 'Not Transferable', and forward to the Windflow Technology Ltd Rights Issue, c/- Link Market Services Ltd, PO Box 384, Ashburton in the reply paid envelope provided.

IF YOU WISH TO SELL SOME OF YOUR RIGHTS, YOU MUST DO SO BEFORE RIGHTS TRADING ON THE NZAX CEASES ON 28 NOVEMBER 2007. IF YOU NEED ANY ASSISTANCE YOU SHOULD CONTACT AN NZX FIRM, OR YOUR INVESTMENT OR LEGAL ADVISER. APPLICATIONS CANNOT BE REVOKED OR WITHDRAWN. IF THE REGISTRAR RECEIVES, ON OR BEFORE 5:00 PM ON FRIDAY 30 NOVEMBER 2007 BOTH AN INSTRUCTION TO SELL WITH A COMPLETED RENUNCIATION AND ALSO AN ACCEPTANCE FORM IN RESPECT OF THE SAME RIGHTS, THE INSTRUCTION TO SELL/RENUNCIATION WILL BE GIVEN EFFECT IN PRIORITY TO THE ACCEPTANCE.

THERE IS NO GUARANTEE THAT ANY RIGHTS OFFERED FOR SALE, OR ANY RIGHTS SOUGHT FOR PURCHASE, WILL BE BOUGHT OR SOLD.



## 9.2 Exercise of Options and subscription for Additional Shares

If (and only if) you accept your Rights and subscribe for New Shares you will also be allotted Options to subscribe for Additional Shares.

To exercise your Options and subscribe for Additional Shares, you must, between 1 September and 30 September 2008 (i.e. in approximately 11 months time), give notice of the exercise of the Options and pay the subscription amount for the Additional Shares. Notice and payment can be given at any time during September 2008 up to 5:00 pm on 30 September 2008 but all cheques will be presented on or immediately after 30 September 2008 and all Additional Shares will be allotted and issued between 30 September and 7 October 2008 regardless of the date that notice of the exercise of the Options is given. To exercise your Options and subscribe for the Additional Shares you must:-

- Advise Link Market Services Ltd (in writing) your name, address, CSN Number and the number of Options being exercised. An Entitlement and Exercise Form with those details and the number of Options held as at the date of preparation of the Form (together with a Reply Paid envelope and a reminder of these instructions) will be forwarded to all Optionholders in late August 2008. A standard Entitlement and Exercise Form will also be available to be downloaded from the Windflow Technology Limited website from late August 2008;
- Attach your cheque or bank draft in New Zealand dollars for the amount required to be paid at the rate of \$3.30 per Additional Share, made payable to Windflow Technology Limited and crossed 'Not Transferable'; and
- Forward your completed Entitlement and Exercise Form and your cheque or bank draft to:  
Windflow Technology Limited Options  
c/- Link Market Services Ltd  
PO Box 384  
Ashburton

Alternatively send it to any NZX Firm in time to be forwarded to the Registrar by 5:00 pm on Tuesday 30 September 2008.

FOR APPLICATIONS TO BE VALID, RELEVANT DOCUMENTATION, PROPERLY COMPLETED, MUST BE RECEIVED BY THE REGISTRAR NO LATER THAN 5:00 PM ON TUESDAY 30 SEPTEMBER 2008. NOTICE OF THE EXERCISE OF OPTIONS CANNOT BE REVOKED OR WITHDRAWN.



## 10. ANSWERS TO IMPORTANT QUESTIONS

The disclosures in this section appear in the order specified by the Securities Act (NZX-NZAX Market) Exemption Notice 2005.

### WHAT SORT OF INVESTMENT IS THIS?

#### Description of Securities Being Offered

Shareholders are being offered the opportunity to subscribe for further ordinary shares (the "New Shares") in Windflow Technology Limited ("Windflow Technology" or the "Company"). The New Shares will be issued at an issue price of \$3.00 per share. Shareholders can subscribe for these New Shares on the basis of an entitlement of 1 New Share for every 4 ordinary Existing Shares that they hold on the Record Date of 5:00 pm Friday 2 November 2007.

In addition each subscriber for a New Share shall also receive one separately tradable Option for each New Share subscribed for. The Option is to acquire one Additional Share at an exercise price of \$3.30 per Additional Share. The Options are exercisable on 30 September 2008. Notice of the exercise can be given at any time during September 2008 up to 5:00 pm on 30 September 2008.

The New Shares and Options are being offered on a renounceable basis. Shareholders may accept their entitlements in full or in part. A shareholder who does not wish to accept their entitlement may sell or transfer that entitlement. Alternatively, a shareholder may elect to accept his or her entitlement in part and sell or transfer the remainder. If a shareholder does nothing, his or her entitlement will lapse.

Each New Share and each Additional Share will rank equally in all respects with the Existing Shares. This means the New Shares and the Additional Shares confer the following rights on the holder:

- the right to vote;
- the right to participate in dividends on the same basis as all other holders of ordinary shares;
- the right to share in surplus assets in a liquidation on the same basis as other holders of ordinary shares;
- the right to receive an annual report; and
- the other rights conferred by the Company's constitution on its shareholders and the rights conferred by the Companies Act 1993 on shareholders generally.

#### Maximum Number of Securities Offered

The maximum number of New Shares being offered is one quarter of the number of Existing Shares as at 5:00 pm on 2 November 2007 (with Rights being rounded up where less than a whole Right would have otherwise been issued).

The Company has issued 70,555 options each to acquire one ordinary share to staff members under the Staff Share Option Scheme, of which 57,391 have been allocated but not yet exercised. The exercise price of the options ranges between \$2.06 and \$3.90, and all options must be exercised before 20 June 2010 or such later date as the Directors might determine. If any of these options are exercised prior to the Record Date, the number of Rights issued and the maximum number of New Shares that may issue will be increased accordingly.

The Company has issued 99,511 options each to acquire one ordinary share to Geoffrey Morgan Henderson under the Agreement for Licence of the Torque Limiting Gearbox System, 65,727 of which have been allocated but not yet exercised. The exercise price of the options is \$2.13, and all options must be exercised before 30 October 2007. If any of these options are exercised prior to the Record Date, the number of Rights issued and the maximum number of New Shares that may be issued will be increased accordingly.

The Directors do not consider it necessary to alter the terms of the existing options as a result of this Rights issue.

The number of options (including options held by employees under the Staff Share Option Scheme, held by Geoffrey Morgan Henderson under the Licence for the Torque Limiting Gearbox and held by security holders who receive Options as a result of subscribing for New Shares in this rights issue) may be changed if the ordinary shares are sub-divided or consolidated, or if there is a bonus issue of shares, to retain the correct proportion of Options, in accordance with the NZAX Listing Rules.

As at the Specified Date of this Prospectus the number of Existing Shares is 6,723,691 and, apart from the rounding and share option issues noted above, the number of New Shares and Options being offered is 1,680,923.

Assuming none of the previously issued options described above are exercised prior to the Record Date, the maximum number of New Shares (and Options) that could be issued pursuant to this Rights Issue is 1,680,923 New Shares and 1,680,923 Options. If the maximum number of New Shares are issued, then the maximum number of Options which would be issued and the maximum number of Additional Shares that could be issued would also be 1,680,923.

If all 123,118 of the previously allocated and unexercised options were exercised prior to the Record Date, the number of Rights issued would increase by 30,780. The maximum number of New Shares and Options that could be issued pursuant to this offer is therefore 1,711,703. The 1,711,703 is also the maximum number of Additional Shares that could be issued pursuant to this offer. The combined maximum number of New Shares and Additional Shares is 3,423,406.

### **Principal Activities of Windflow Technology**

Windflow Technology was incorporated on 13 October 2000. The Company is a design and manufacturing company that designs and builds wind turbines using a patented torque limiting gearbox. The first prototype turbine was installed at Gebbies Pass in July 2003 and a further 5 production turbines were installed at the Te Rere Hau windfarm, near Palmerston North in September 2006.

## **WHO IS INVOLVED IN PROVIDING IT FOR ME?**

### **The Issuer**

The issuer is Windflow Technology Limited having its registered office at the offices of HFK Limited, Unit 4, 567 Wairakei Road, Christchurch and carrying on business at 42-44 Mandeville Street, Christchurch. The Company was incorporated under the Companies Act 1993 on the 13 October 2000, registration number 1071533. A public file relating to the incorporation and registration of Windflow Technology can be viewed on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz) under the name of the Company. Where relevant documents are not available on the website, a request for them can be made by clicking the 'Order Archived Documents' button on the search results screen or by calling the Companies Office Contact Centre on 0508 266 726.

### **Directorate and Advisers**

#### **Directors**

##### **Chairman**

(Peter) Barrie Leay, 45 Ledbury Road, Nelson.

##### **Director and Chief Executive Office**

Geoffrey Morgan Henderson, 12 Scotston Avenue, Christchurch. Geoff holds the degree of Bachelor of Engineering (Mechanical) with honours from the University of Canterbury and a Diploma of Computer-Aided Design from Christchurch Polytechnic and Institute of Technology. He is a Fellow of the Institution of Professional Engineers of New Zealand (IPENZ) and a registered Professional Engineer with the State of California.

##### **Director and Chairman of Audit**

Keith James McConnell, 12 Balfour Road, Auckland. Keith holds an accounting degree (B. Com) from Otago University.

##### **Director**

Heugh Maudsley Kelly, 185 Shegadeens Rd, RD3 Wellsford. Heugh holds a law degree (LLB) from the University of Auckland.

##### **Director**

Caroline Lucy Theodora Parlane, 17A Putnam St, Wellington. Caroline holds an arts degree (B.A), an arts degree with first class honours (B.A (Hons)) and a diploma in accounting (Dip Accy) all from Victoria University. Caroline is also a member of the Institute of Directors.

Geoffrey Morgan Henderson is employed by the Company as its Chief Executive Officer.

No Director has been adjudged bankrupt during the five years before the Specified Date.

#### **Promoters**

There are no Promoters.

#### **Secretary, Auditors and Other Advisors**

##### **Secretary**

Terry Elizabeth Moon

##### **Auditors**

Goldsmith Fox PFK, 250 Oxford Street, PO Box 13-141, Christchurch. A resolution was passed at the Company's Annual Meeting on 24 October 2007 to change the auditor to Goldsmith Fox PFK Audit.

##### **Solicitors**

Mortlocks, 137 Armagh Street, PO Box 13-480, Christchurch

##### **Share Registrar**

Link Market Services Ltd, 138 Tancred Street, PO Box 384, Ashburton

##### **Issuer of the Rights and the Options**

The Issuer of the Rights and the Options is Windflow Technology Limited. Its registered office is the offices of HFK Limited, Unit 4, 567 Wairakei Road, Christchurch and it carries out business at 42-44 Mandeville Street, Christchurch. Windflow Technology Limited will not receive any consideration in respect of the allotment of the Rights. Windflow Technology Limited will receive \$3.00 for each New Share issued and the Options to subscribe for Additional Shares will be issued to those persons who subscribed for New Shares at no additional cost. Windflow Technology Limited will receive \$3.30 for each Additional Share issued.

##### **Subsidiaries**

The Company owns 50% of the shares of Wind Blades Limited (and in is the process of purchasing the other 50% as is disclosed in the section headed "Material Contracts"). Any other holdings are non trading or less than 5% of the net tangible assets of the issuing group.

Top 10 Shareholders as at 10 October 2007

<b>Shareholder</b>	<b>Address</b>	<b>Shares</b>	<b>%</b>
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
Margaret Simmons	Christchurch	105,000	1.56
Paul Simmons	Christchurch	99,412	1.48
Simon Stockdale	Auckland	96,825	1.44
David Isles	Wellington	92,190	1.37
Andrew Rochford & Sabina Rochford	Warkworth	79,512	1.18

The persons specified above as the top 10 shareholders as at 10 October 2007 do not undertake any liability in respect of the securities being offered.

## HOW MUCH DO I PAY?

### **Moneys Payable by Subscribers**

The issue price for the New Shares, and for each New Share issued, one separately tradable Option to acquire one Additional Share, offered to shareholders is \$3.00 per New Share payable to Windflow Technology Limited C/- of Link Market Services Ltd, PO Box 384, Ashburton on 30 November 2007.

If the shareholder determines to exercise the Option and acquire the Additional Shares, the shareholder is required to pay \$3.30 per Additional Share on 30 September 2008.

The number of New Shares (and therefore Options) to which each shareholder is entitled is set out in the Renunciation and Acceptance Form that accompanies this Offering Document. A shareholder is not required to accept the offer. If a shareholder accepts the offer and subscribes for New Shares, the shareholder is not required to exercise the Option on 30 September 2008 and may attempt to sell the Option or may let it lapse.

The \$3.00 payable per New Share (with Option) is fixed and neither the Company nor any other party has the right to change that amount under this Prospectus. The \$3.30 payable per Additional Share is also fixed and neither the Company nor any other party has the right to change that amount under this Prospectus except that the number of Options held by an Option holder may be adjusted for share splits, consolidations and bonus issues as provided for in the NZAX Listing Rules.

Acceptance of the offer of New Shares in full or in part must be made by completing the Renunciation and Acceptance Form in accordance with the instructions on that form. Payment in full for the New Shares subscribed for must accompany the Renunciation and Acceptance Form, which must be received by Link Market Services Ltd, PO Box 384, Ashburton no later than 5:00 pm on Friday 30 November 2007.

If payment of the full amount is not received by that date the shareholder shall not be entitled to the New Shares (and therefore not entitled to any Options). Detailed payment instructions, including a description of the amounts payable and the address to which payments must be made, are set out in the section entitled 'Actions Required by Shareholders' and on the instructions on the Renunciation and Acceptance Form.

Exercise of the Option to acquire Additional Shares in full or in part must be made by advising Link Market Services Ltd (in writing) of your name, address, CSN Number and the number of Options being exercised. This can be done by completing the Entitlement and Exercise Form which will be sent to all registered holders of Options in late August 2008 in accordance with the instructions on that form. That form will also be available on the Windflow Technology Limited website ([www.windflow.co.nz](http://www.windflow.co.nz)) from late August 2008. Payment in full for the Additional Shares subscribed for must accompany the Entitlement and Exercise Form, which must be received by Link Market Services Ltd, PO Box 384, Ashburton no later than 5:00 pm on 30 September 2008.

If payment of the full amount is not received by that date the shareholder shall not be entitled to the Additional Shares. Detailed payment instructions, including a description of the amounts payable and the address to which payments must be made, will be set out on the Entitlement and Exercise Form. Any cheques received prior to 30 September 2008 will not be presented until 30 September 2008 and the Additional Shares will not be allotted and issued until shortly after 30 September 2008 (but will be allotted and issued on or before 7 October 2008).

### **Cooling Off Period**

There is no cooling off period during which subscribers can change their minds once they have subscribed for the New Shares and the Options.

However Subscribers have until 30 September 2008 to decide whether or not to exercise the Options to acquire the Additional Shares. If the subscriber decides not to exercise the Option (and does not sell the Option) the Option lapses and no payment or partial refund of any payment is made to the Subscriber.

## WHAT ARE THE CHARGES?

### Types of Charges

There are no charges that are payable by a subscriber (directly or indirectly) to Windflow Technology other than the \$3.00 subscription price per New Share payable by 30 November 2007 and if and only if the subscriber determines to exercise the Option, the \$3.30 subscription price per Additional Share payable by 30 September 2008.

All expenses including financial administration fees, legal and accounting costs in respect of the offer will be paid by the Company. Any validly completed acceptances of the Rights and/or exercises of the Options accompanied by a cheque for the correct amount and bearing the stamp of an NZX Firm will accrue a brokerage payment of 1.0% of the subscribed amount or a minimum of \$60. The Company will pay this brokerage to the NZX Firm.

Shareholders who wish to sell some or all of their Rights or some or all of their Options may be liable to pay brokerage fees. The fees may vary from broker to broker and may depend on the size of the transaction. Shareholders are responsible for their own brokerage fees when selling Rights or Options.

### Amount of Charges

Subscribers are not required to pay any charges to Windflow Technology, other than the issue price of \$3.00 per New Share, and \$3.30 per Additional Share.

## WHAT ARE THE DIRECTORS' AND PROMOTERS' INTERESTS?

### Directors' Interests

No Director other than Geoff Henderson has a contract of services with the Company or is otherwise entitled to remuneration from Windflow Technology other than by way of Directors' Fees, except as set out in this section. Directors are entitled to be paid for all reasonable travelling, accommodation and other expenses incurred in attending meetings, and when otherwise engaged on business for the Company.

Geoff Henderson is employed by the Company in the capacity of Chief Executive Officer (whose contract can, subject to compliance with the provisions of the Employment Relations Act, be terminated on less than 2 years notice without payment of compensation). He is also entitled to royalty payments from the Company under a licensing agreement whereby he granted to the Company a license to use the torque limiting gearbox protected by NZ Patent 231594 and Australian Patent 622955. For the first 10 years of the license the royalty payment is the larger of 1% of the net wholesale price and a lump sum payment based on the size of the gearbox. In respect of the Windflow 500 and any larger machines the lump sum payment is \$10,000. For the following 10 years it reduces by half and after that period the obligation to pay royalties ceases. To date, Geoff Henderson has received royalty payments of \$330,000 and is entitled to a further payment of \$160,000 due to be paid by 31 January 2008. This amount will be funded by a deposit payment due from the Te Rere Hau Joint Venture.

On 8 October 2007 the Company entered into a conditional agreement with Geoff Henderson to purchase the US Patent 5,140,170 for the torque limiting gearbox for the sum of \$250,000 plus GST (60% of which sum must, at the sole option of the Company, be applied by Geoff Henderson to subscribe to shares from the Company at a price equal to the weighted average market value of shares during the 20 business days before the date Agreement becomes unconditional) together with success fee payments at the rate of \$20 per kilowatt (which equates to \$10,000 for the Windflow 500 turbine) until the expiry date of the US Patent which is 24 May 2011. The US Patent was issued to Geoff Henderson on 18 August 1992 at an initial cost of approximately \$10,000 and the subsequent payment of maintenance fees amounting to approximately \$8,000. Windflow Technology shareholders approved this transaction and the issue of the shares at the Annual Meeting on 24 October 2007. The agreement is still conditional on the Company raising \$1 million of new capital by 31 March 2008 (with the intention that the first tranche of funds from this Rights issue would fulfill that condition).

Directors, and in particular Keith McConnell, have been contracted to provide consultancy services in respect of individual projects where the time and responsibilities involved went significantly beyond the normal duties of a Director. The other Directors fixed the remuneration in those cases based on market rates for consultancy services. As an example Keith McConnell was contracted to assist with the detailed drafting and preparation of this Offering Document, for which he received remuneration of \$1,500 per day which the other Directors considered to be normal commercial rates for a person of Keith McConnell's skill and experience.

The Constitution contains provisions relating to retirement benefits.

The text of those provisions is given below.

**22.4 Payments upon cessation of office:**

- (a) *The Company may make a payment to a Director or former Director, or his or her dependents, by way of a lump sum or pension, upon or in connection with the retirement or cessation of office of that Director, only if:*
- (i) *The total amount of the payment (or the base for the pension) does not exceed the total remuneration of the Director in his or her capacity as a Director in any 3 years chosen by the Company; or*
- (ii) *The payment is authorised by an Ordinary Resolution.*
- (b) *Nothing in this clause shall affect any amount paid to an Executive Director upon or in connection with the termination of his or her employment with the Company, or the payment of any amount attributable to the contribution (or any normal subsidy related thereto) made by a Director to a superannuation scheme.*

The policy of the Company is to pay reasonable annual compensation to the Directors while they are Directors and not to make any payment upon retirement or cessation of a Director. There are two former Directors of Windflow Technology Limited. Neil Cherry died while a Director and Vicki Buck resigned as part of the process of separating NZ Windfarms Limited from the Company. In neither case was any retirement or cessation payment made.

At the Windflow Technology Limited Annual Meeting, on 24 October 2007, the remuneration payable to the Directors was amended as follows:-

- A Director of Windflow Technology Limited (other than the Chairman of the Board of Directors) was increased from \$18,000 per annum to \$27,500 per annum;
- Chairman of the Board of Directors of Windflow Technology Limited was increased from \$27,000 per annum to \$55,000 per annum;
- Chairman of the Audit sub-committee is to be paid an additional \$5,000 per annum; and
- Any director who is a member of the Audit sub-committee is to be paid an additional \$2,000 per annum.

As at the date of this Offering Document, the Directors have the following beneficial and non-beneficial interests in shares issued by the Company, which are held either directly or through a related entity:

Director	Shares Held			
	Beneficially	Interest of Associated Persons	Non-Beneficially	Total Entitlement to Rights
Barrie Leay	8,650			2,163
Geoff Henderson	383,784	387,025		192,703
Heugh Kelly	24,500			6,125
Keith McConnell	7,166			1,792
Caroline Parlane	5,000			1,250

Geoff Henderson, the Chief Executive Officer and Director of Windflow Technology Limited, and his family interests have advised that they will be unable to take up their full entitlement and will be seeking to sell their surplus Rights on the NZAX Market.

There are no promoters' interests to be disclosed.

## WHAT RETURNS WILL I GET?

Shareholders may get a return from accepting or selling their Rights, accepting or selling their Options (if they subscribe for New Shares and therefore receive Options) or on the sale of any New Shares, Additional Shares, or Existing Shares. Dividends may also be paid on shares. No return is promised and no person guarantees any return on the Rights, the Options, the Existing Shares, the Additional Shares, or the New Shares.

### Returns from Rights

Shareholders as at the Record Date are entitled to Rights at no cost. Rights are tradable on the NZAX between Monday 5 November 2007 and 5:00 pm on Wednesday 28 November 2007. Shareholders who neither accept the offer of New Shares nor sell their Rights will receive no return from their Rights. By doing nothing, the value of their shareholding as a proportion of the Company will reduce (it will be diluted because more shares will be issued). Any return received from selling Rights will depend on the price at which those Rights are sold at the time of sale. That price will in turn be influenced by the price at which shares are likely to be sold on the NZAX Market, and on the demand for the Rights. There is no guarantee that there will be a purchaser for the Rights at any price. The person legally liable to pay the return on the sale of Rights is the purchaser of those Rights.

### Returns from Options

Subscribers for New Shares are entitled to one separately tradable Option for each New Share subscribed for at no additional cost. Options are tradable on the NZAX Market between Monday 10 December 2007 and 26 September 2008. Subscribers for New Shares who neither exercise the Option of subscribing for Additional Shares nor sell their Options will receive no return from their Options.

By doing nothing, the value of their shareholding as a proportion of the Company will reduce (it will be diluted because more shares will be issued). Any return received from selling Options will depend on the price at which those Options are sold at the time of sale. That price will in turn be influenced by the price at which the shares are likely to be sold on the NZAX Market, and on the demand for the Options. There is no guarantee that there will be a purchaser for the Options at any price (especially if the market price of the shares is below the exercise price of \$3.30 per share). The person legally liable to pay the return on the sale of Options is the purchaser of those Options.

### Returns from Dividends

The returns available from New Shares, Additional Shares, and Existing Shares in the Company (but not the Rights or the Options) will include all dividends and any distributions declared on or after the date of the allotment of the shares being offered in this Offering Document. Actual dividends will be dependent upon future earnings, the financial and taxation position of the Company and other relevant factors. The timing of dividend payments will be determined at the discretion of the Board. The Board can give no assurance about the level of future dividends, if any. The Board cannot currently predict the dates at which, or the frequency with which, dividends will be paid, if any. On 28 August 2007, the Company announced a pre-tax loss for the financial year ended 30 June 2007 of \$3.314 million.

The Company may pay a dividend return to shareholders but neither it nor the Board nor any other person guarantees any returns. No amount of returns, quantifiable as at the date of this Offering Document and enforceable by investors, has been promised. The Company is the party legally liable to pay any dividend (if and when declared).

### Returns from Changes in the Value of the Shares

Shareholders may benefit from any increase in the market price of their New Shares and Additional Shares above the respective \$3.00 and \$3.30 subscription prices if they sell the New Shares or the Additional Shares. The person legally liable to pay the return from the sale of the shares is the purchaser of those shares. The market price of those shares may also decline below the \$3.00 and \$3.30 subscription prices with the result that the shareholder may receive less than the amount paid. There is no guarantee that the price will increase or that there will be a purchaser (at any price) seeking shares when a shareholder tries to sell shares. Some factors that may influence the share price include:

- The Company's future earnings and cash flows.
- The degree of acceptance of the Windflow 500 turbine by electricity industry participants.
- The rate of penetration of the Windflow 500 turbine in the new markets identified.

- General share market trading conditions, confidence and performance.
- Other factors described under the heading 'What Are My Risks?' below.

If the share price is above \$3.30 it would be expected that the Options would have a value. The value of the Options would increase or decrease as the share price increased or decreased and as the supply and demand for Options increased or decreased. There is no guarantee that the Option price will increase or that there will be a purchaser (at any price) seeking Options when a shareholder tries to sell Options. If the share price falls below \$3.30 it would be expected that the Options would have no value.

### **Funding of Capital Projects**

As well as providing working capital, funds raised from the offer of the New Shares and Additional Shares will be used for one or more of the following projects.

1. Development of a 60 hz version of the Windflow 500 which can be sold in the United States of America and other markets that use a 60 Hz electricity system. Associated with this is the purchase from Geoff Henderson of the US patent that he holds for the torque limiting gearbox. The total cost (in terms of cashflow) of the development of the 60 Hz version and the purchase of the US patent is approximately \$1.5 million.

The Company expects that the above expenditure would enable it to market its turbines in the United States of America. That market is many times larger than the New Zealand market and if Windflow Technology Limited establish itself even as a niche vendor in that market then the amount invested in developing a 60 Hz version could be recovered many times over. There is no guarantee that Windflow Technology will be able to obtain sales in the United States but it should be noted that the Company has been having discussions with a number of US developers over many months and the Directors believe that profitable sales will be able to be obtained in the United States of America.

2. Development of a wind-diesel version of the Windflow 500 which can be sold for installation on sites not connected to a normal electricity grid. The total cost would be approximately \$70,000. However it may be necessary for the Company to fund a demonstration machine which would take the cost to approximately \$1 million.

The Company expects that the above expenditure would enable it to market its machines to New Zealand and Pacific islands and other isolated sites that are currently dependent on relatively expensive diesel generated electricity. There is no guarantee that Windflow Technology will be able to obtain sales in this market but it should be noted that the Company has been having discussions with a number of parties over many years who would be interested in purchasing a combined wind-diesel electricity generating system and the Directors believe that profitable sales will be able to be obtained.

3. Development of a Low Variable Speed version of the Windflow 500 which would be sold to be installed on sites where the average wind speed is below 8.6 m/s. The total cost would be approximately \$1.5 million. On those low wind speed sites this version of the Windflow 500 would generate more electricity and therefore more revenue for the operator than a standard Windflow 500. That would enable operators of wind farms to develop sites that could not be economically developed with the standard Windflow 500.

The Company expects that the above expenditure would enable more Windflow 500's to be sold and in doing so generate more revenue and ultimately profit for the Company. There is no guarantee that the Company will be able to sell a Low Variable Speed version of the Windflow 500 especially when the Company's marketing has previously stressed the design advantages of the Windflow 500 in coping with high wind speeds and gusty wind conditions. Many of the purchasers of Low Variable Speed Machines will be outside of New Zealand and to date Windflow has not sold any turbines outside New Zealand.

### **Other Matters Relevant to Returns**

New Zealand taxes may affect the total return to investors. Any dividends will be subject to New Zealand withholding and final taxes but the investor's liability in respect of such taxes may be reduced or satisfied to the extent the dividends have imputation credits attached. In addition, in some cases, any gains on the sale of shares or Options may be taxable. Shareholders should seek advice as to their liability for tax on returns having regard to their individual circumstances.

## WHAT ARE MY RISKS?

Windflow Technology is exposed to a number of different types of risks including company specific and general investment and economic risks. This section describes the key risks considered by the Directors as applying to the Company. The list is not necessarily exhaustive. These risks may result in no dividends being paid or the share price falling or there being no market for the sale of the shares.

### Technology Risks

The Windflow 500 turbine, which is the core of the Company's future, has been developed over the last six years and only six are presently operating. Although performance to date has been good, there is no surety that problems won't be found in the future and within its 20 year design life. Modifications have had to be made to the gearboxes of the 5 turbines installed at Te Rere Hau and three of the blades at an estimated cost of \$250,000. While the joint venture developing Te Rere Hau ordered a further 16 turbines in early October 2007, the joint venture has advised that they would like to assess the operating history of the first five turbines over a longer period of time before ordering the balance of the turbines needed to complete the Te Rere Hau windfarm.

The joint venture has raised a number of issues which contributed to the decision to not order more than 16 turbines at this point in time including:-

- The likelihood that IEC Certification was still at least 9 months away.
- The 5 turbines currently installed at Te Rere Hau are currently operating outside their noise warranty.
- The 5 turbines currently installed at Te Rere Hau are currently operating outside their availability warranty.

The Company has given a five year warranty on the turbines it has sold that they will meet certain performance standards and should these performance standards not be achieved by a large number of turbines over an extended period of time then significant claims could arise.

The Directors believe that IEC Certification will be granted to the Windflow 500 design and that the noise issue is not substantial. The availability issue referred to by the joint venture is an historical issue that relates to the modifications already made or being made to the gearboxes.

Even though the new technologies (namely the torque limiting gearbox, teetering two blade system, and use of a synchronous generator) are giving satisfactory performance on the very windy site at Te Rere Hau, there is no surety that substantial problems won't be found in the future.

The Company's future marketing plans assume that the Windflow 500 receives its Class 1A IEC Certification. There is no guarantee that this will be the case. In addition the time required to achieve this certification may be longer and the cost required may be greater than now anticipated. While the joint venture developing Te Rere Hau ordered a further 16 turbines at the beginning of October 2007 the joint venture has advised that one of the concerns that held them back from placing a larger order was that IEC Certification was not currently available.

There is no surety that the Company can successfully develop the three new models indicated and that the market will respond positively to them.

The Windflow 500 produces a maximum output of 500 kW or 0.5 MW. Recent announcements of wind farm projects have been for 2 MW or larger machines. There is a risk that the market may be favouring larger machines than that initially designed by the Company.

The Directors believe that the 500 kW machine is competitive in its own right because:

- It fills a niche market for small-medium sized wind farms.
- Buyers will be purchasing machines best suited to New Zealand operating conditions.
- Larger turbines are more difficult, and therefore more expensive, to erect on steep ridgelines typical of the New Zealand terrain, as they require two very large cranes compared to the single crane required by the Windflow 500.
- Larger turbines can visually dominate the landscape with a maximum height in excess of 100 m. The Windflow 500 kW machine is less than half that size. As wind farms start to be developed closer to population centres this difference may become critical to the ability to gain resource consents for the new farms.

While the Windflow 500 technology could be scaled up to a larger machine, the Directors believe that it is better to develop the variations on the Windflow 500 outlined earlier in this prospectus rather than developing a larger version of the turbine.

### **Manufacturing Risks**

The Company's plans include an aggressive and rapid scaling up of its manufacturing capabilities. There is no certainty that this can in fact be achieved either on a timely or quality basis.

The international turbine market is extremely buoyant and there is no guarantee that the Company can secure sufficient components to build the turbines it plans.

### **Competition**

At the moment, the Directors believe that the Company is able to provide a combination of benefits through its use of its technology in the Windflow 500 turbine that can not be matched by its competitors. However, it is possible that a competitor may develop a package of features that reduces this perceived competitive advantage. Furthermore with the patents on the torque-limiting gearbox expiring in 2009 (Australia and New Zealand) and 2011 (United States) those companies may adopt the same basic technology (but not Windflow Technology Limited's own plans, diagrams and specifications which are protected by copyright and are confidential to the Company). There is no patent protection for the basic torque-limiting gearbox technology outside of those three countries.

Competitors may also stress to potential buyers the Technology Risks outlined above and the Company may not be able to convince potential buyers that the advantages of the Windflow 500 outweigh those risks.

The recent fall in the New Zealand dollar will assist Windflow Technology as the turbine components are largely paid for in New Zealand dollars. This will help both when competing in New Zealand against machines imported from overseas and profitably selling machines overseas (which are essentially priced in Euros or US dollars). A return to a higher New Zealand dollar would make it more difficult to compete in both local and international markets.

As at the Specified Date the only unconditional purchasers of the Windflow 500 have been NZ Windfarms Limited and the Te Rere Hau Joint Venture. Those orders have been to further progress the development of Te Rere Hau which was started when NZ Windfarms Limited was a wholly owned subsidiary of Windflow Technology Limited and where the resource consent specifies that Windflow 500 turbines be used.

Windflow Technology is still to obtain its first sale in a full competitive bid situation against the established turbine manufacturers.

### **Key Staff**

The loss of certain key staff could seriously impact the ability of the Company to deliver on its commitments.

## **Electricity Market Risk**

Although electricity prices have risen markedly over several years, there is no certainty that the electricity market will continue its upward trend. There is a possibility that significant new gas supplies will be found and will be able to be developed at a price that means that gas-fired electricity generation is more attractive than wind power. If such a gas supply was found the Company believes that this would result in less generation being built based on wind power than is currently forecast. The Government may change the environmental legislation so that some presently unacceptable hydro- or combustible fuel-based solutions become feasible. The present Government's commitment to an emissions trading system may weaken or change over time. That could make New Zealand's abundant supplies of coal more attractive as a source of electricity generation. Any of these outcomes would reduce the present attractiveness of wind power.

## **Generation by Windpower**

Over the last five years, the New Zealand and global growth in generation by windpower has been exceptionally strong. Much of this is driven by concern over climate change and the desire to establish renewable sources of energy but in many overseas countries it has been assisted by subsidies. There is no certainty that either the concern or subsidies will continue.

## **Resource Consents**

Future growth in New Zealand of wind generation will require that resource consents for the erection and operation of wind turbines can be economically obtained by purchasers of the turbines. There is a risk that purchasers will not be able to obtain resource consents to erect and operate the turbines and therefore will not purchase the turbines. Windflow Technology Limited's Windflow 500 turbine is much smaller than those more commonly being installed elsewhere in New Zealand. Being shorter, the structure presents less of a risk to low flying aircraft, and is not as visible as larger machines. Smaller machines also mean that narrower access roads are sufficient therefore there is less call for widening existing roads and new roads will require less investment to build.

## **Rights Issue**

The forward-looking statements all assume that the rights issue for New Shares is close to fully subscribed and that most Option holders decide to exercise the Options and subscribe for the Additional Shares. If that is not the case then the plans of the Company will have to be adjusted to take into account the resources available to it. This means that if the capital raising has a substantial shortfall (and additional funding can not be obtained from other sources) then the growth prospects discussed in this Prospectus will be delayed. The capital raising is not conditional on any overall minimum subscription being raised.

## **Consequences of Insolvency**

An insolvency risk arises if Windflow Technology Limited cannot trade profitably and is forced to cease operating its business. If this occurs shareholders are unlikely to recover the money they have paid for the shares. There is no risk that shareholders must pay in more money than the original subscription amount for the shares. This applies even if the Company becomes insolvent.

Shareholders should be aware that in the event of Windflow Technology Limited becoming insolvent, ordinary shareholders rank behind secured and unsecured creditors in respect of both the principal invested and any dividends accumulated, in any claim on the assets of the Company.

In the event of Windflow Technology Limited being put into liquidation, secured and unsecured creditors rank ahead of ordinary shareholders in any claim on the assets of the Company. Once all other creditors have been paid, ordinary shareholders rank equally amongst themselves and are entitled to share in the distribution of any remaining assets in proportion to their shareholding.

Right and Option holders have no entitlement to any claim on the assets of the Company.

## NZAX Listing

The securities offered in this prospectus are, or will be, listed, on the NZX's NZAX market. The NZAX market differs from the NZSX market, also operated by NZX, in the following key respects:

- there are reduced criteria for listing on NZAX – there is no requirement for 25% of the securities of an NZAX issuer to be widely held and no minimum value requirement for NZAX listings as apply to NZSX listings. Whilst an NZSX issuer must have 500 shareholders, an NZAX issuer needs only 50 shareholders
- an NZAX issuer requires an NZX sponsor in order to list on the NZAX market, whereas NZSX companies require an organising participant
- greater flexibility is accorded by the NZAX Listing Rules to NZAX issuers seeking to raise capital, buy back securities, and undertake major transactions. The NZAX Listing Rules provide NZAX issuers with an option to undertake these activities, without seeking shareholder consent, by making an announcement to the market, which discloses fully the transaction prior to that transaction becoming final
- the materiality threshold for related party transactions in the NZAX Listing Rules is higher than the threshold in the NZSX Listing Rules. This means that an NZAX issuer may enter into [proportionally] more substantial transactions with related parties before being required to seek shareholder approval for those transactions
- the corporate governance standards for NZAX issuers do not contain all the matters provided for in the corporate governance standards for NZSX issuers.

## CAN THE INVESTMENT BE ALTERED?

Neither the Company, a shareholder, nor any other person has any rights to alter the consideration payable by a shareholder for their New Shares or the Additional Shares, described under *'How Much Do I Pay?'*

The rules attaching to ordinary shares in the Company can generally only be altered by special resolution in accordance with the Company's constitution. The Company's constitution may only be altered by a special resolution of shareholders, or in certain circumstances, by court order.

A special resolution must be approved by a majority of 75% of shareholders entitled to vote and voting on that resolution. Under certain circumstances a shareholder whose rights and privileges are affected by a special resolution may require the Company to purchase shares held by the shareholder.

However the Constitution also requires the Company to comply with the NZAX Listing Rules as they apply from time to time. The NZAX Listing Rules are determined by NZX and need to be approved by the Minister of Commerce.

## HOW DO I CASH IN MY INVESTMENT?

Being ordinary shares, rights and options there is no right of termination, cancellation, or surrender of the securities. The Constitution empowers the Company to buy back shares but the Directors have no intention of exercising this option in the foreseeable future.

A subscriber is entitled to offer to sell his or her interest to another party. This can be done via the NZAX through any NZX Firm.

The securities (Shares, Rights and Options) have been accepted for quotation by NZX on its NZAX market and will be quoted upon completion of allotment procedures. However, NZX accepts no responsibility for any statement in this prospectus.

Windflow Technology Limited is registered on the NZAX and the Company's shares have been trading on this market since November 2003 under the code WTL. This means that any NZX Firm is able to offer for sale these ordinary shares in return for a brokerage fee, which is charged to the seller. There is no certainty that there will be buyers at any given price at any given time.

The Rights may be traded on the NZAX from Monday 5 November 2007 until 5:00 pm on Wednesday 28 November 2007. Quotation of the New Shares on the NZAX is expected to occur on Monday 10 December 2007. The Options may be traded on the NZAX from Monday 10 December 2007 until 5:00 pm on Friday 26 September 2008. Quotation of the Additional Shares on the NZAX is expected to occur on Wednesday 8 October 2008.

## WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

If an investor has any questions about this investment, these can be directed to:

Ms Terry Moon  
Windflow Technology Limited  
42-44 Mandeville Street,  
Christchurch  
PO Box 42-125, Christchurch  
Phone 03 365-8960  
Fax 03 365-1402  
Email: [info@windflow.co.nz](mailto:info@windflow.co.nz)

## IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

If an investor has any complaints about this investment, these can be directed to:

Geoff Henderson  
42-44 Mandeville Street,  
Christchurch  
PO Box 42-125, Christchurch  
Phone 03 365-8960  
Fax 03 365-1402  
Email: [info@windflow.co.nz](mailto:info@windflow.co.nz)

A complaint about the securities or about Windflow Technology Limited can be made directly to NZX. The NZX's contact details are:

The Help Desk  
NZX  
Level 2, NZX Centre  
11 Cable Street  
P O Box 2959  
Wellington  
Phone +64 4 495 2825

Additionally complaints may be made to:

The Securities Commission,  
PO Box 1179,  
Wellington.

There is no Ombudsman to whom complaints about an investment can be made.

## WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

### Financial Statements

The Company's most recent annual accounts registered under the Financial Reporting Act are those as at 30 June 2007.

Copies of the Annual Accounts as at 30 June 2007 and the Annual Report for the period ending 30 June 2007 (including the audit report) are available:-

- (a) to be inspected free of charge at the Company's offices at 42-44 Mandeville Street, Christchurch during normal business hours, or
- (b) free of charge on request from Windflow (PO Box 42-125, Christchurch, Phone 03 365-8960, Fax 03 365-1402 or E-mail: [info@windflow.co.nz](mailto:info@windflow.co.nz)) or
- (c) on Windflow's NZAX information portal ([www.nzx.com](http://www.nzx.com)) and Windflow's website ([www.windflow.co.nz](http://www.windflow.co.nz)).

There are available:-

- (a) to be inspected free of charge at the Company's offices at 42-44 Mandeville Street, Christchurch during normal business hours, or
- (b) free of charge on request from Windflow (see above contact details) or
- (c) on Windflow's NZAX information portal ([www.nzx.com](http://www.nzx.com)) and Windflow's website ([www.windflow.co.nz](http://www.windflow.co.nz)).

all the annual reports completed by and all the financial statements prepared by Windflow for the 5 consecutive years and accounting periods respectively before 30 June 2007.

There are available:-

- (a) to be inspected free of charge at the Company's offices at 42-44 Mandeville Street, Christchurch during normal business hours, or
- (b) free of charge on request from Windflow (see above contact details)

the following documents:-

- (i) the Constitution
- (ii) the Financial Statements as at 30 June 2007 and
- (iii) the material contracts referred to under the heading 'Material Contracts' in the following section.

### **Acquisition of business or subsidiary**

There has been no business, subsidiary or body corporate acquired by the Company over the two-year period prior to the Specified Date, whose consideration paid or payable, or proposed to be paid, for the acquisition of the business, subsidiary or body corporate is more than one-fifth of the amount of the total tangible assets shown in the statement of financial position referred to in the previous section.

### **Annual and half yearly information**

Each year shareholders will receive (or if the Company exercises the right to give a notice under s209(3) of the Companies Act 1993 and gives shareholders the option of receiving the Half Year and Annual Reports electronically, the opportunity to receive) a Half Year Report and an Annual Report as is required by the Companies Act, the Constitution and the NZAX Listing Rules.

### **On request Information**

Electronic (by email) or hardcopy versions of the following are also available:

- Constitution of the Company
- Half Year Reports including their corresponding financial statements
- Annual Reports including their corresponding financial statements including comparisons against the prospective financial information contained in the earlier Prospectuses.
- Shareholder Newsletters Numbers 1 to 22
- Brochure on the Windflow 500

These can be obtained free of charge by contacting the office as follows:

Ms Terry Moon  
42-44 Mandeville Street,  
PO Box 42-125,  
Christchurch.  
Phone 03 365-8960  
Fax 03 365-1402  
Email: [info@windflow.co.nz](mailto:info@windflow.co.nz)

The prospectus, and financial statements and other documents of, or relating to, the issuer are filed on a public register at the Companies Office of the Ministry of Economic Development and available for public inspection on the Companies Office website [www.Companies.govt.nz](http://www.Companies.govt.nz).

## OTHER IMPORTANT INFORMATION

### Material Contracts

#### **Turbine Sale Agreement with NZ Windfarms Ltd and its Subsequent Novation to the Te Rere Hau Joint Venture**

On 12 October 2005, the Company entered into a Sale and Purchase Agreement with NZ Windfarms Limited for the supply of 97 turbines for the Te Rere Hau windfarm. The 97 turbines were split into 4 batches with various timing and conditions on each batch. To date, the first batch (5 turbines) have been installed and second batch (28 turbines) are ordered and in production with delivery commencing early in 2008. On 29 January 2007, the Sale and Purchase Agreement was novated from NZ Windfarms to a joint venture comprising NZ Windfarms (50%) and a consortium of Babcock and Brown and NP Power. The novation enabled the joint venture to take over NZ Windfarms' rights and obligations under the 12 October 2005 agreement. On 3 October 2007, an order for a further 16 turbines (being part of the third batch) was confirmed and these are expected to be delivered in the financial year ending 30 June 2009.

#### **Agreement with Geoff Henderson to acquire the US Patent for the torque limiting gearbox.**

On 8 October 2007 the Company entered into a conditional agreement with Geoff Henderson to purchase the US Patent 5140170 for the torque limiting gearbox for the sum of \$250,000 plus GST (60% of which sum must, at the sole option of the Company, be applied by Geoff Henderson to subscribe to new shares from the Company at a price equal to the weighted average market value of shares during the 20 business days before the date the agreement became unconditional) together with success fee payments at the rate of \$20 per kilowatt (which equates to \$10,000 for the Windflow 500 turbine) until the expiry date of the US Patent being 24 May 2011. The US Patent was issued to Geoff Henderson on 18 August 1992 at an initial cost of approximately \$10,000 and the subsequent payment of maintenance fees amounting to approximately \$8,000. Windflow Technology shareholders approved this transaction at the Annual Meeting on 24 October 2007. It is also conditional on the Company raising \$1 million of new capital on or before 31 March 2008 (with it being expected that the first tranche of this Rights issue will lead to the satisfaction of that condition).

#### **Agreement with Tait-Brooking Contracting Limited to acquire its 50% of Wind Blades Limited**

On 8 October 2007 the Company entered into an agreement with Tait-Brooking Contracting Limited to acquire the 50% of Wind Blades Limited shares owned by that company. Payment for the Wind Blades Limited shares will be made by issuing 21,000 fully paid ordinary Windflow Technology Limited shares to Tait-Brooking Contracting Limited. Bruce Tait and Peter Brooking will contemporaneously enter into Employment Agreements with Wind Blades Limited that will commit them to working for Wind Blades Limited for a further three years.

Windflow Technology shareholders approved this transaction at the Annual Meeting on 24 October 2007. This transaction will make Wind Blades a wholly owned subsidiary.

### Other Material Matters

The Directors are of the opinion that all Material Matters have been set out in other parts of this Prospectus or in the financial statements as at 30 June 2007 or are contracts entered into by the Company in the ordinary course of its business.

## DIRECTORS' STATEMENT

The Directors are of the opinion, after due enquiry by them in relation to the period between 30 June 2007 being the date of the latest statement of financial position referred to on page 37 and 25 October 2007 being the Specified Date of this prospectus, that no circumstances have arisen that materially adversely affect:-

- (a) the trading or profitability of the issuing group; or
- (b) the value of its assets; or
- (c) the ability of the issuing group to pay its liabilities due within the next 12 months.

### Signed by



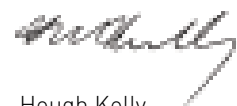
Barrie Leay



Geoff Henderson



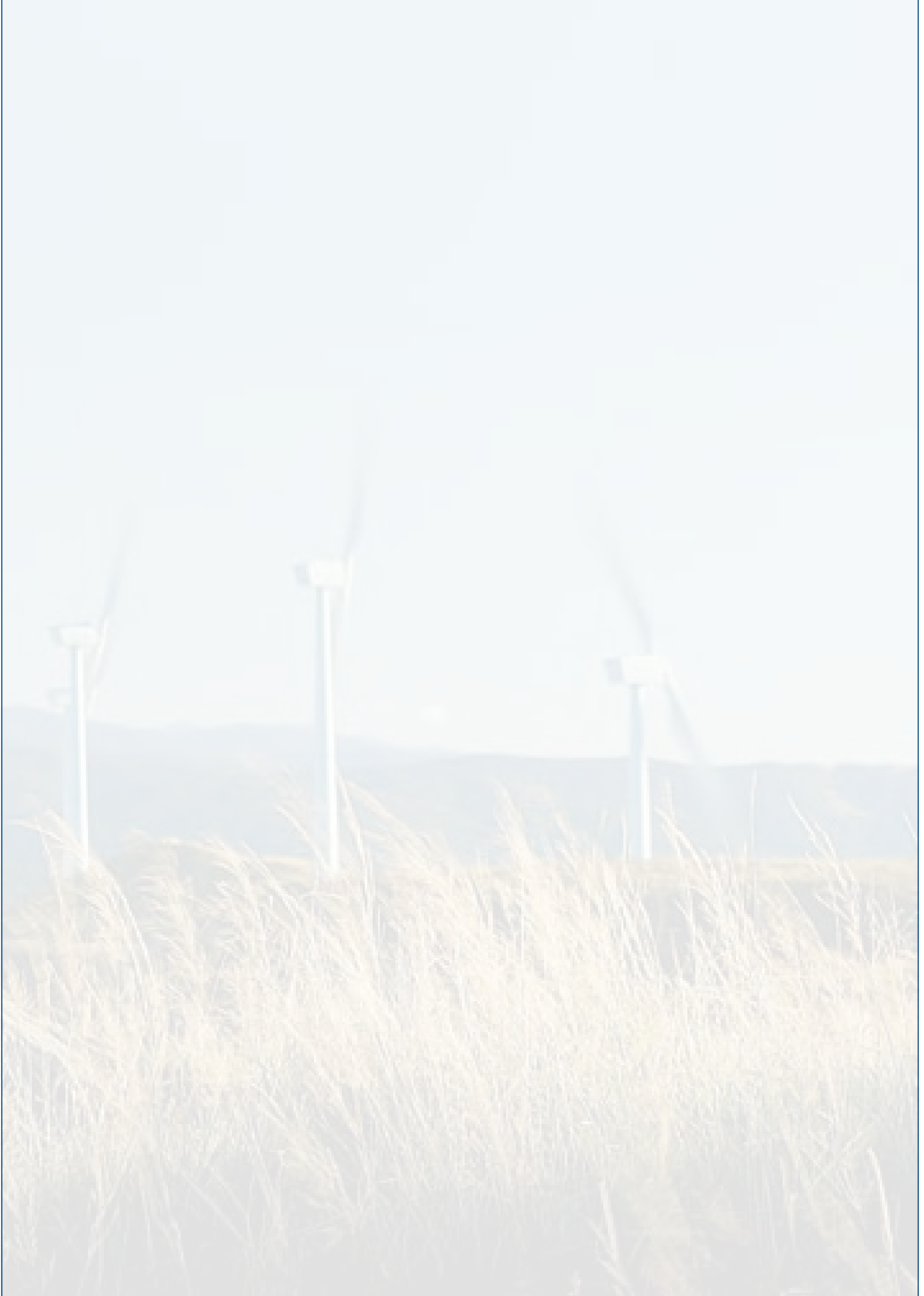
Keith McConnell



Heugh Kelly



Caroline Parlane





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