

Windflow Technology Limited

Prospectus for
renounceable rights issue
May - June 2005

WARNING - RESTRICTED DISCLOSURE

This registered prospectus has been prepared in accordance with the Securities Act (NZX-NZAX Market) Exemption Notice 2003. It may not contain as much information as would ordinarily appear in a registered prospectus prepared in accordance with the requirements of the First Schedule to 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 web site, www.nzx.com, the issuer's own Internet website www.windflow.co.nz or free of charge from the issuer on request.

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 advisor

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

- whether the advisor gives advice only about particular types of investments; and
- whether the advice is limited to the investments offered by 1 or more particular financial organisations; 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 5 working days of your request. You must make the request at the time the advice is given or within 1 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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"There are few merrier spectacles than that of many windmills bickering together in a breeze over a woody country, their halting alacrity of movement, their pleasant business of making bread all day with uncouth gesticulations, their air gigantically human, as of a creature half alive, put a spirit of romance into the tame landscape."

Robert Louis Stevenson



1. Chairman's Letter

Dear Shareholder or Investor

The Directors of Windflow Technology Limited believe that the company is on the verge of achieving the goals we set out in our initial public offer of 2001. Through our wholly-owned subsidiary NZ Windfarms Limited (NZWL), we have been granted a resource consent for the Te Rere Hau wind farm and we have advanced the design of our prototype wind turbine at Gebbies Pass in response to our testing and operational issues as they have arisen.

Wind Farm Resource Consent

In February and following a 6 month process of consultations and hearings the resource consent for the Te Rere Hau wind farm located just outside Palmerston North was granted to NZWL. That decision has been appealed but the Boards of the Company and NZWL believe that the decision will be upheld on appeal. NZWL has taken the opportunity of the appeal to request that some of the conditions imposed be clarified or adjusted. As NZWL is currently a wholly owned subsidiary, any increase in its value increases the value of Windflow Technology Limited.



Joint Venture Partner

NZWL has taken a significant step forward on the Te Rere Hau wind farm project with the signing of a conditional agreement with N P Power Pty Limited and Babcock & Brown Windpower Pty Limited. Under the agreement, all three organisations agree to enter into a joint venture to develop the Te Rere Hau wind farm. N P Power and Babcock & Brown will make a payment of \$3 million by the end of this year as their initial contribution and it is intended they will fund half of the estimated \$80 million required to develop the wind farm, the other half being met by NZWL. Apart from the initial payment, the agreement is dependent on NZWL's partners completing feasibility studies on the Te Rere Hau wind farm site and the Windflow 500 turbine before the end of the year.

Windflow 500 turbines on the Te Rere Hau wind farm site. (A photo-simulation.)



Prototype Testing and Operation

We have consistently reported to you the progress and delays with our prototype at Gebbies Pass (near Christchurch). There have been four events (outside of normal commissioning): the 'noise problem' caused a major and expensive delay in our programme, while the latest, more serious event (10th March), was caused by wind conditions outside the International Standard to which our machine was designed.

The Company has learnt and gained from each of these events and will continue with the turbine development and certification programme once we have refurbished the prototype with parts originally manufactured for the Te Rere Hau wind farm. However, as a result of the above events our programme is more than a year behind our original expectations.

Windflow Technology Limited has developed new noise reduction technology for which it is now seeking international patent protection; we have changed our gearbox lubrication system and strengthened the pitch mechanism and will change our control and protection systems to prevent a repeat of the damage caused by the unusual wind conditions experienced at Gebbies Pass.

The energy capture performance of the prototype has exceeded its design targets. The advantages of the Torque-Limiting Gearbox (TLG) system and the use of a synchronous generator have been highlighted by experiences in the wind industry here and overseas.

The New Zealand Scene

Since the abandonment of the proposed Project Aqua hydroelectric power scheme on the lower Waitaki River, announcements by Meridian in respect of the Te Apiti and White Hill windfarms and of further possible windfarms and by TrustPower of the Tararua stage three windfarm provide evidence that they have reached the logical conclusion which your CEO and I have been

promoting for more than a decade. Our opinion is that wind energy is the most feasible form of electricity generation currently available to meet New Zealand's growing electricity demand. Its advantages of low cost, rapid installation, smaller megawatt increments for viability and relative ease of obtaining resource consents are, in the opinion of the Directors, now widely accepted.

Furthermore, the Directors have had discussions with industrialists who are considering building their own wind farms as a means of spreading the risk they face from price spikes caused by increasingly frequent power shortages. As a result the Directors believe there is clear evidence that New Zealand demand for wind turbines is growing.

These factors are promising for Windflow Technology Limited as it seeks to develop and supply its turbines for future wind farm developments.

Windflow Technology Limited provides New Zealand investors with a unique opportunity to profit from these positive industry dynamics as the only publicly listed manufacturer of utility scale electricity generation equipment in New Zealand and Australia. The Company is now at the advanced stages of the development of its world-class wind turbine technology and is close to realising the benefits from the investments made over the last 4 years. Altogether, I believe that this is the right time to make a further investment in wind turbine manufacturing and power generation.

Yours faithfully,



Barrie Leay,
Chairman.

2. Summary of Investment

Windflow Technology Limited (“the Company”) has prototyped and now intends to commercialise what it believes to be a light, durable and cost-effective wind turbine design based on its two-bladed teetering design, its patented torque-limiting gearbox and synchronous generator system.

Since the last capital raising in August 2003 the Company has applied shareholders’ funds as set out in that prospectus to:

- Continue testing and certification of the prototype turbine.
- Commence construction of up to six production turbines.
- Develop Windflow Technology Limited’s systems and composition of staff to meet more effectively the Company’s growth strategies.
- Establish NZ Windfarms Limited.
- Fund market development activities.

Progress has been slower than expected primarily because of our well-publicised noise and other prototyping technical issues, including the damage done to the turbine on 10th March this year (see box on this page) as well as the delays involved with obtaining a resource consent for the Te Rere Hau site.

In spite of this, Windflow Technology Limited is now well advanced in its testing program for its first wind turbine prototype at Gebbies Pass near Christchurch. Through these operational experiences the Company has:

- Developed new noise reduction technology for which it is currently seeking international patent protection.
- Proven the principles of the torque-limiting gearbox system in conjunction with the synchronous generator and the two-bladed teetering system.
- Made several improvements to the original design which will benefit subsequent batches.

Prototype Turbine Damage on 10th March, 2005

A sudden wind shift occurred when a strong south-west change came through with a cold front. (On the same day the same front triggered the most damaging tornado in Greymouth since records began).

Overall the Company would characterise the wind shift which occurred at Gebbies Pass as being more severe than the relevant 1 in 50 years design case for wind turbines published by the International Electrotechnical Commission (IEC) for a Class 1A (the most windy and turbulent) site. It triggered a sequence of events which caused severe damage to the turbine, which was running at the time. The gearbox holding-down bolts were grossly overloaded by the unusual and extreme running loads and broke. As a result the gearbox and blades fell to the ground beneath the turbine and were damaged beyond repair.

After investigating the accident the Directors are satisfied that the causes are well understood, that the extreme wind shift was the primary cause, and that modifications to the turbine control system will prevent a recurrence.

Accordingly the Company is currently rebuilding the turbine using funds on hand.

The expenditure since August 2003 on Research and Development (R&D) activities associated with the prototype totals approximately \$1.0 million. This includes the time-related costs (salaries and other overheads) due to the additional time it has taken to work through these issues.



A. H. Gears Limited has most parts for six gearboxes ready for assembly.

Windflow Technology Limited is well advanced in building a batch of five wind turbines for a first wind farm project at Te Rere Hau or elsewhere. The batch size was initially six, but one set of parts will be used to refurbish the prototype unit at Gebbies Pass. The Company has made commitments to external suppliers totalling \$3.1 million, including payments made to date of \$1.9 million. These include:

- Auckland company Wind Blades Limited (50% owned by Windflow Technology Limited) which has completed 12 blades for the batch of 6 turbines, plus a further blade for fatigue testing purposes.
- Auckland company A. H. Gears Limited, which has built a full-power gearbox test rig, and entered into a contract for the supply of six more gearboxes.
- Christchurch firm Bremca Industries Limited has been engaged to supply six sets of electrical and control gear.
- Dunedin firm Farra Engineering Limited has been engaged to supply six hubs and sets of pitch mechanisms.
- Christchurch firm Southern Cross Engineering Limited has been engaged to supply six fabricated steel pallets.
- Imported six generators, six sets of slewing bearings and six brake callipers, which are now in stock in Christchurch.



Six synchronous generators are in stock in Christchurch.

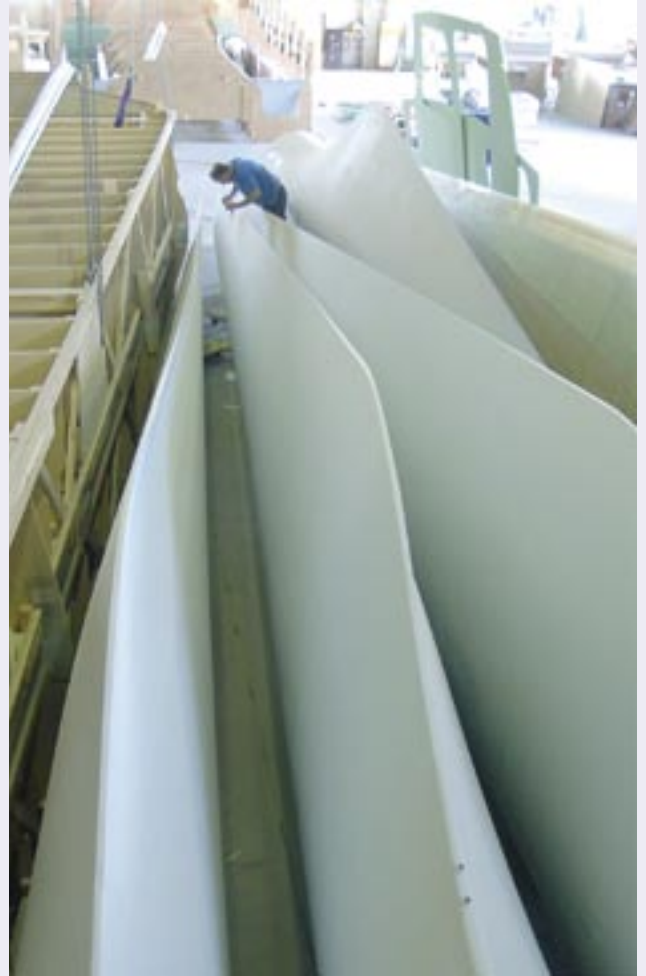
Blades for six turbines (and one for fatigue testing) have been manufactured at Wind Blades Limited, a company 50% owned by Windflow Technology Limited.

A new wholly owned subsidiary, NZ Windfarms Limited (NZWL), has been formed to develop and own a portfolio of wind farms. The first NZWL project is a wind farm of 104 Windflow 500 turbines on Aeolian Property Company Limited's land near Palmerston North (Te Rere Hau). With an estimated cost of \$80 million over three years, it will require substantial new capital raising.

With this in mind, NZWL has entered into a conditional agreement with a consortium of two companies, N.P. Power Pty Limited and Babcock & Brown Windpower Pty Limited (NPBB) to jointly develop the Te Rere Hau wind farm site. The consortium has agreed to enter into a joint venture 50/50 with NZWL to develop the wind farm. The consortium will make a payment of \$3 million as its initial contribution to the joint venture. Subsequent payments are subject to the completion of feasibility studies on the wind farm site and the Windflow 500 turbine technology. Further details regarding the agreement can be found in the "Material Contracts" section of this offer document.

NZWL is currently working through the appeals process following the granting of the resource consent in February of this year.

NZWL has entered into a conditional contract with the New Zealand Government for carbon credits for its proposed Te Rere Hau windfarm. The opinion of the Directors of Windflow Technology Limited is that the income that will result from any allocation of the carbon credits could be in excess of \$5 million spread over several years assuming all the potential carbon credits (519,000 Emission Units) are allocated and that those carbon credits can be sold for the prices currently being obtained in European markets (approximately \$NZ10 per emission unit based on the sale by Meridian Energy of its emission units to the Netherlands Government in December 2003 for an average price of \$NZ10.50).



The expenditure since August 2003 on establishment of NZWL and preparatory work for its flotation totals approximately \$450,000. This includes the Te Rere Hau resource consent costs to date. It also includes the time-related costs due to delays in the resource consent process.

Windflow Technology Limited has taken its first steps towards its ambition to export turbines abroad. The Company has entered into a memorandum of understanding with the consortium of N.P. Power Pty Limited and Babcock & Brown Windpower Pty Limited to locate a demonstration turbine on Stage 2 of the consortium's Lake Bonney wind farm in South Australia. For further details, please refer to the section on Material Contracts.

Windflow Technology Limited has a 20% shareholding in WindPower Otago Limited, a company that has been established to develop a portfolio of wind farms in the Otago region. It has secured rights to a site near Middlemarch with the potential to generate up to 25 MW of electricity.

Expenditure since August 2003 on marketing activities has totalled approximately \$200,000. This includes the cost of projecting a presence at local and international conferences.

Thus the majority of the Company's expenditure since August 2003 has been on the next production run of five turbines that are close to completion. A sixth set of parts originally intended for the Te Rere Hau wind farm will be used to repair the turbine at Gebbies Pass. While there have been delays and additional costs as part of the prototyping process, overall, the Company is well positioned to move forward.

New Zealand electricity demand continues to grow more quickly than supply (report by Bryan Leyland; 27 August 2004 – www.bryanleyland.co.nz). Consequently, electricity prices have continued to rise over the last few years (New Zealand Wind Energy Association – www.nzwea.org.nz) and the Directors expect this trend to continue in the medium term, as the Maui Gas Field is exhausted. Furthermore, the likelihood of power shortages and high prices in very dry years continues to grow as evidenced by the Government setting up the Electricity Commission in 2003 to provide for reserve generation in very dry years which would only be made available at a high price (www.beehive.govt.nz/hodgson/electricity-commission/speechcfm).

The major players in the New Zealand power generation industry have turned to wind power as the most cost-effective source of new electricity generation – see the table of existing and planned wind power in Section 8 of this Prospectus and Meridian's statement in the Autumn 2005 Currents newsletter regarding the quick and cost effective completion of the Te Apiti wind farm.

As a result, wind power has enjoyed a sustained period of growth over recent years. The two largest wind farm owners in New Zealand have announced plans to greatly expand their installed capacities.

Recently the Kyoto Protocol has come into force, which the Directors believe will result in wind farms having a growing competitive edge over thermal generation including coal- and natural gas-fired technologies.

With continued investment the Company will be able to complete the first batch of turbines, install up to five of them at Te Rere Hau and/or elsewhere, complete the testing, engineering and certification work on the Gebbies Pass prototype, complete the establishment of NZ Windfarms Limited (NZWL) and continue a range of commercialisation activities so that the Company can play an increasing role in delivering environmentally and economically sustainable electricity generated from New Zealand's abundant wind resource.

Windflow Technology Limited presents a rare opportunity for investors both to invest directly in an exciting local manufacturing venture and directly participate in this fast-growing market.

3. Offer Summary

3.1 Introduction

The Company, Windflow Technology Limited, is conducting a pro rata renounceable rights issue of up to 2,619,178 ordinary shares.

3.2 Entitlement

Each shareholder of Windflow Technology Limited is entitled to apply for one ordinary share for every two shares owned on the date of record 4.30pm Friday 13 May 2005.

If a shareholder sells any shares prior to the date of record 4.30pm Friday 13 May 2005 then the entitlement (the "Rights") transfers to the buyer.

3.3 Use of Proceeds

The details regarding how the funds will be applied are set out on pages 17 and 18.

In summary, the funds will be used to:

- Complete the wind turbine prototype development programme.
- Complete the five Windflow 500 turbines currently under construction and install them at Te Rere Hau and/or elsewhere.
- Meet the preliminary and issue expenses incurred by this rights issue.
- Provide early stage funding for NZ Windfarms Limited through to its initial public offering.

3.4 Price

The price of each ordinary share applied for is \$2.30. If an entitlement is sold in whole or in part, then the buyer must also pay \$2.30 for each ordinary share in order to exercise the newly acquired right.

3.5 How to Apply if you are a shareholder

Entitlements can be taken up by filling out the Letter of Entitlement and Acceptance Form included with this Prospectus.

3.6 Closing Date for Applications

The completed Letter of Entitlement and Acceptance Form should be sent together with your payment to either any NZX Broker in sufficient time to be forwarded to the share registrar by 5 p.m. Friday 10 June 2005 or directly to the share registrar by that same time, whose details are provided in the Directory at the end of this Offer Document.

3.7 Minimum Investment

For the purposes of this offer, there is no minimum investment.

3.8 Allocation Date

Final allocation of shares pursuant to this rights issue will take place no later than Friday 17 June 2005. There being no minimum subscription required for the capital raising, the Company reserves the right to make earlier partial allocations in respect of accepted entitlements received by the share registrar prior to the Closing Date.

3.9 Full or Partial Acceptance

Shareholders with entitlements have a number of potential courses of action. They are:

- Taking up their entitlement in full.
- Taking up only a portion of their entitlement and sell the remainder through the NZAX market.
- Deciding not to take up any of their entitlement and sell all their rights through the NZAX market.
- Purchasing additional entitlements from other holders.
- Taking no action. See later section "Taking No Action" regarding this option.

3.10 Entitlement (Rights) Trading

Entitlements (also called “rights”) may be bought and sold (“rights trading”) through an NZX broker on the NZAX market.

Rights may be traded between 10 a.m. Monday 16 May 2005 and 4.30 p.m. Wednesday 8 June 2005 (“the Rights Trading Period”).

3.11 How to Buy and Sell Rights

Holders considering whether or not to sell some or all of their rights should contact an NZX broker. The sponsoring broker for this rights issue is Greenslades Limited and the contact details are given below:

Greenslades Limited Christchurch:
Alexandra Dalzell
Phone: 03 366-7973
Toll-Free: 0508 667-070
Facsimile: 03 377-3238
E-Mail: Alex.dalzell@greenslades.co.nz

Dunedin:
Paul Valk
Phone: 03 477-5900
Toll-Free: 0800 888-866
Facsimile: 03 477-6743
E-Mail: Paul.valk@greenslades.co.nz

An NZX broker will be able to advise what the current bid (buy) and offer (sell) prices are during the rights trading period, assuming that there are rights available for sale.

The Company will be paying a brokerage of 1.0% or a minimum of \$60 on validly completed application forms (with cheques) with a valid NZX broker’s stamp for shares under the offer, but not on the sale of rights.

Once a successful trade of rights has occurred, the NZX brokers involved in the transaction will issue a contract note to their respective clients as a record of the trade.

There is no guarantee that any rights offered for sale, or any rights sought for purchase, will be bought or sold.

3.12 How to Sell Rights

An NZX broker should be contacted and trading instructions can be given to the broker directly. Settlement of the transaction will be handled on the electronic FASTER system. The NZX broker, following each successful sale or purchase, will issue a contract note to his or her client as the buyer or seller as the case may be.

3.13 How to Take Part If You Are a New Investor

If the reader is not a current shareholder then rights can be purchased through any NZX broker, depending on their availability as holders offer them for sale during the rights trading period.

3.14 Underwriting

The renounceable rights issue under this Prospectus is not underwritten.

3.15 Confirmation of Share Ownership

The Company’s securities are listed on the NZAX market. This market uses the electronic FASTER system to settle trading transactions. This means that paper-based share certificates are not issued whenever securities are bought and sold. Instead, the share registrar will post out updated holding statements. These statements provide confirmation of share ownership.

3.16 Taking No Action

During the offer period the rights have a value, which will be set by the market. By doing nothing and allowing the entitlement to lapse, the holder loses that value. Furthermore the rights are wasted, depriving the Company from raising the necessary funds to progress its development.

Consequently taking no action is considered by the Directors to be unwise.

3.17 Key Dates

Action	Date
Record date for the calculation of entitlements.	4.30 p.m. Friday 13 May 2005
Rights trading commences on NZAX, code "WTLRA" and Existing shares trade ex-rights entitlement.	10 a.m. Monday 16 May 2005
Letter of entitlement to Rights and this offer document posted to shareholders as at the Record Date	Monday 16 May 2005
Rights trading closes on NZAX	4.30 p.m. Wednesday 8 June 2005
Latest date for the Letter of Entitlement and Acceptance Form and cheques to be received by the Registry.	5 p.m. Friday 10 June 2005
Allotment of new ordinary shares and mailing of FASTER statements.	No later than 5 p.m. Friday 17 June 2005

4. Directors

4.1 Barrie Leay, Chairman

Barrie was until mid-1997 Executive Director of the Electricity Supply Association of New Zealand. He is Chairman of Ecodyne Limited, a company established to develop environmentally benign forms of power generation, and a Director of ThePacific.net Limited, Suntech Power Limited, ASCE Corporation Limited and founder Chairman of the APEC Energy Business Network in the Asia Pacific region. Barrie has been a leading figure in the reforms of electricity industries and the establishment of competitive electricity markets in New Zealand and other APEC economies. Barrie is a Director of NZ Windfarms Limited (NZWL).



4.2 Geoff Henderson, Chief Executive Officer and Director

Geoff's background is described in detail in the "Management" section of this prospectus.

4.3 Heugh Kelly, Director

Heugh is a barrister and solicitor with over 20 years experience in commercial law. Educated at Auckland Grammar School and the University of Auckland where he gained a law degree (LLB), he has been in practice on his own account since 1984. He is a Director of the Environmental Defence Society which is a position he has held since 1981 and was a member of the legal committee of the Maruia Society for some years.



4.4 Keith McConnell, Director

Keith holds an accounting degree (B. Com) from Otago University. He has served as Chief Executive Officer of a number of commercial entities over the last 15 years. These include John Edmond Limited, Donaghy Downs Pty Limited, The Power Company Limited, United Electricity Limited, Paykel Limited (now renamed Blackwoods Paykel Limited) and most recently Fruehauf Pacific Limited. His involvement with wind energy first arose during his tenure with The Power Company Limited where he sponsored a wind testing programme at three sites in Southland, one of which is now being developed by Meridian Energy as a wind farm. Keith has also been involved in several successful start-up ventures such as Metering Systems Limited and Supply Solutions Limited, and has a good understanding of the issues involved in such ventures.



Keith is also a Director of Wind Blades Limited and NZ Windfarms Limited.

5. Management

5.1 Geoff Henderson, Chief Executive Officer and Director

Geoff, who is 46, 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. Geoff has been involved in wind power engineering for twenty years.

Geoff began his career as a research assistant for the Joint Centre for Environmental Sciences at the University of Canterbury before shifting to Worley Consultants Limited in 1981. While there he carried out many engineering projects for the dairy industry and worked on several feasibility studies for wind turbine installations at remote sites in New Zealand.

In 1984 he became the Site Mechanical Engineer for American Diversified Capital Corporation (ADCC) based in Costa Mesa, California. His work there involved detailed operational and construction experience with various Danish- and Dutch-designed three-bladed wind turbines on ADCC's two wind farms, in the Altamont Pass area, whose production capacities totalled 2.9 MW and 22 MW respectively.

He joined London-based Taylor Woodrow Construction Limited's Wind Energy Group in 1986 initially as their Project Engineer before being promoted to Principal Engineer. His work there included installing 25m, 250 kW three-bladed and 33m, 300 kW two-bladed wind turbines in California, Wales, Italy, Northern Ireland and Scotland; supervising the production of over 30 wind turbines and heading research projects investigating fatigue rates on blade



roots. During that time he invented the torque-limiting gearbox, which has been patented in New Zealand, Australia and the United States; and completed investigative studies for a coal-fired 150 MW power station.

He returned to New Zealand in 1990 where he founded Wind Torque Limited to provide consulting and design services to the wind power industry. His firm counted UK-based Wind Energy Group Limited, The Power Company Limited, (a Southland-based generator), Ultrawind Corporation of California, the Electricity Corporation of New Zealand (ECNZ), the Electricity Supply Association of New Zealand and the Energy Efficiency and Conservation Authority as its clients. In 1994 he received the Communications Award from IPENZ for his contribution to the engineering profession as a proponent of wind power.

He founded Windflow Technology Limited in 2001. Geoff is a past Chairman of the Canterbury Branch of IPENZ and was a founding Director of the New Zealand Wind Energy Association. He is a Director of Aeolian Property Company Limited, and Windflow Technology Limited's non-trading subsidiary company Pacific Windfarms Limited. Geoff is also a Director of Wind Blades Limited and is Windflow Technology Limited's representative on the Board of Windpower Otago Limited.

5.2 Chris Freear, Business development Manager and NZWL CEO

Chris, who is 36, has completed Mechanical Engineering and Management Science degrees from the University of Canterbury. Chris has had several years of experience in various roles within the energy, education and food processing industries.

He began his career as the plant engineer for Mr Chips Limited in 1993. In 1995, he joined Southpower Limited as an Energy Project Coordinator and rose to the position of Energy Analyst in 1998. During this time he was involved with numerous energy efficiency and waste minimisation projects. He successfully coordinated a project to import new heavy metal recovery technology and establish a local agent to distribute the new product. Southpower sold its energy trading business to Trans Alta and following this transaction he was appointed to the position of Commercial Sales Engineer in 1999.

After On Energy subsequently acquired the business his key account management role expanded to include a substantial amount of business analysis and business development projects. He pioneered the provision of dual fuel energy solutions using electricity and LPG for On Energy. Through these efforts, he saw this business unit's sales grow by over 50%. In 2001, Chris established his own energy management consultancy, Energy Matters Limited and an engineering design company Feet First HPV Limited.



Chris joined Windflow Technology Limited in 2003 as its Business Development Manager. In this position, he is responsible for sales and marketing. This area includes raising industry awareness of Windflow Technology Limited's products, developing sales contracts and negotiating agreements with potential clients.

Chris is a Director of the New Zealand Wind Energy Association and has been seconded to NZ Windfarms Limited as Chief Executive Officer.





5.3 Warwick Payne, Senior Mechanical Engineer

Warwick, who is 30, is a mechanical engineer and holds a mechanical engineering degree from the University of Canterbury.

He began his career as an engineer at Christchurch-based Commtest Instrument Limited, a vibration testing instruments designer and manufacturer, in 1998. While there, he gained experience in machining materials and software testing.

In 1999 he joined Meyer Consulting, an engineering consultancy that specialised in Transport Engineering, as a Consulting Engineer. At Meyer, he specialised in Finite Element Analysis (FEA) for complex components and structures and was responsible for the firm's largest client, Designline Limited (the Ashburton-based coachbuilders). He managed all the design checks and certification for vehicles built by Designline. While there he carried out FEA analysis of the cabs of New Zealand-made airport fire appliances. The analysis checked that the occupants of the vehicle would remain unharmed in the event of an accident. This involved constructing a three-dimensional model of the cab, then simulating an impact, and then inspecting the occupant spaces for damage.

Windflow Technology Limited recruited Warwick in 2002 as a Project Engineer where he is responsible for design, assembly, site installation, testing and maintenance of the blades, tower and nacelle.



5.4 Wernher Roding, Electrical and Control Systems Engineer

Wernher, who is 27, is an electrical engineer and holds an honours degree in that field from the University of Auckland and a Master of Science Degree from the University of Durham. While studying for his Masters Degree he won the Engineer Studentship award worth GBP 10,000. His thesis focused on Vernier Hybrid Wind Turbine Generators. He has shown considerable entrepreneurial flair while still a student at Durham by setting up his own company in 2000 as a franchise from Calendar Club UK Limited.

In 2001 he joined Windflow Technology Limited where he is responsible for electrical systems design, hydraulic systems design, sound level and wind resource assessment, electrical and mechanical equipment procurement, applications for research funding and overseeing the Te Rere Hau wind farm distribution, reticulation and monitoring projects.

6. Application of Funds

Following the successful commissioning of its prototype Windflow 500 wind turbine at Gebbies Pass in July 2003, Windflow Technology Limited has experienced delays to its testing, certification and commercialisation program due to the noise problem with the prototype gearbox, relatively minor engineering issues and the recent damage in unusual wind conditions.

The gearbox noise issue has now been completely resolved and the Company has sufficient funds to repair the prototype turbine but the delays have resulted in a need for Windflow Technology Limited to raise additional working capital in order to complete its current program of development. In addition Windflow Technology Limited has refined its commercialisation strategy and identified the need for further investment of a development and demonstration nature if it is to maximise its growth potential.

To complete its current program of development, the Directors have therefore resolved that the Company should seek up to \$6.02 million in additional capital by offering existing shareholders a one for two rights issue at \$2.30 per share.

In reaching this conclusion, the Directors have taken into account a number of factors, which are outlined below:

- The testing program of the Windflow 500 prototype has reinforced many of the competitive advantages Windflow Technology Limited considers this turbine will have in the robust New Zealand wind conditions. The recent experience of unusual wind conditions will result in further improvements to the turbine.

- The acceptance by New Zealanders that wind has a significant place in the electricity future of New Zealand. An Energy Efficiency and Conservation Authority survey in 2004 showed that 82% of New Zealanders approved of wind generation (with 79% approving of hydro generation).
- Commercial investment in wind power worldwide continues to grow - Danish Consultancy BTM estimating growth in 2005 to be around 26%. (www.btm.dk) Investment in New Zealand and Australia has lagged behind the rest of the world to date but is seeing considerable growth at the present time - New Zealand Wind Energy Association (www.nzwea.org.nz).
- "Time waits for no man" and this is particularly true for sellers of new technology. To optimise its opportunities Windflow Technology Limited must maintain the momentum, which has been building since its establishment in 2001.

Should this rights issue be fully subscribed, it is the Directors' intention to apply the funds raised to the following activities:

- Ongoing testing, engineering and certification work on the Windflow 500 prototype.
- Completion of the establishment of NZ Windfarms Limited (NZWL) as the country's first standalone wind farm operator and major customer for Windflow Technology Limited, and working through the appeals process for the resource consent for the 52 MW (104 Windflow 500 turbines) Te Rere Hau site near Palmerston North.
- Completion of the first production run of five Windflow 500 turbines, including installation and on-site construction. It is planned that these units will be sold to NZ Windfarms Limited.
- Patenting activities including the completion of the international patent process for the intellectual property that resulted from the resolution of the gearbox noise issue.

The estimated capital requirements for these activities, in order of importance, are given in the following table.

Activity	Capital Required, \$
Ongoing testing, engineering and certification work on WF500 prototype.	400,000
NZ Windfarms Limited establishment	200,000
Completion and installation of the first production run of up to five Windflow 500 turbines.	3,000,000
Working capital and patenting activities.	420,000
Demonstration turbines in South Australia and elsewhere.	2,000,000
Total	6,020,000

Figure 1: Use of proceeds from the rights issue

It is anticipated that once installed and subject to NZWL successfully obtaining funds from a capital raising, up to five Windflow 500 turbines will be sold to NZWL and/or other parties within a year. This would free up the Company's working capital for further commercialisation activities.

7. Competitive Advantage

Weight, Durability, Cost, Quietness and Electrical Integration

The Company believes that its first model, the Windflow 500, which has been specifically designed to overcome New Zealand's particularly gusty wind conditions, has significant weight, durability and therefore cost advantages over its perceived competitors because of its particular design features: its two-bladed teetering system, its torque-limiting gearbox and synchronous generator. Furthermore, turbine operators can derive additional revenue from the ability to use a synchronous generator by selling voltage control services to electricity network operators.

7.1 Two-Bladed Teetering System

A two-bladed rotor that teeters (see explanatory panel on Teetering) on a low speed shaft (like the Windflow 500's) applies much smaller bending moments to the shaft resulting in less fatigue. This is because at any given instant, the wind pressure on each blade may be quite different, and with a three-bladed rotor this difference gives rise to shaft bending because three-bladed hubs are rigidly fixed to the shaft.

The two-bladed design also has a high rotor speed, which means less torque being applied to the rotor shaft; therefore a smaller, more cost-effective gearbox may be applied. Furthermore, a two-bladed rotor can be parked horizontally, with benefits for hurricane and lightning survivability.

Although the market is dominated by three-bladed designs, Windflow Technology Limited believes that wind turbine designers have long recognised the benefit of two-bladed teetering. As far as the Company is aware, only two companies have been able to overcome a teeter stability problem, WEG in England and Windflow Technology Limited.

The WEG two-bladed turbines have been running successfully in the UK since 1988, but a manufacturer of three-bladed turbines took over the company in 1998 and subsequently decided not to continue the development of two-bladed turbines. As a result, Windflow Technology Limited has a unique opportunity to carry on applying and developing the knowledge around teetering and teeter stability.

For the unsubsidised New Zealand market and gusty wind conditions, Windflow Technology Limited believes that a two-bladed design is the most logical option. With the Windflow 500's technological advantages and cost-effectiveness, the Company believes that the merits of two blades will gradually become more accepted.

The Windflow 500's blades teeter up to 6° either side of the normal plane of rotation in response to varying wind loads.



Teetering

A simple explanation of **teetering** can be found in a child's seesaw. Imagine that there are two children sitting at either end of the seesaw, each the same distance from the central pivot point.

The maximum bending moment* on the seesaw is at the pivot point. The fact that the seesaw can pivot ensures that the moments are steady except when it bumps on the ground.

Now imagine a seesaw that cannot pivot, but is fixed in a horizontal position and imagine the two children jumping up and down on either end of the seesaw to get their fun instead. The bending moments would fluctuate due to impulsive effects (or jarring). These bending moments due to jarring are much greater than if the seesaw can pivot in response to fluctuating loads on each half (the normal seesaw mode).

Thus either the fatigue** life (the period until the seesaw will fail from fatigue) would be



greatly reduced if it can't pivot, or the seesaw would need to be built more heavily to withstand the jarring.

This is what conventional three-bladed windmills without a teetering system have to put up with, it is equivalent to children jumping up and down on a locked seesaw, whereas the Windflow 500 rotor just seesaws (teeters) back and forth, and only occasionally bumps on the ground (i.e. on the teeter dampers in the hub).

* "Moment" is an engineering term. The moment at any point on a beam is the sum of all applied forces times the distance each force is offset from the point.

** "Fatigue" is the process by which many cycles of loading can weaken a structure. Wind turbines must withstand 300-1000 million cycles of loading in their design lives.

7.2 Torque-limiting Gearbox

Wind is naturally turbulent and gusty. Consequently, the torque applied to a conventional gearbox is erratic and causes considerable overloads. These overloads require a much heavier gearbox in order to have a satisfactory operational life.

The generators used in most windmills have to (and thus normally do) have some ability to vary their speed in response to wind gusts. This reduces overloading on the gearbox, but does not eliminate it completely. As a result most windmill gearboxes have to be significantly over-designed, making them heavier and more expensive to prevent premature failure. In addition the generator required for such systems

is also heavier and more expensive than the most common type, creating a double cost penalty. Weight has a considerable bearing on construction cost as it affects the cost of the tower structures and anchoring systems required.

Windflow Technology Limited's torque-limiting gearbox (TLG) design includes a hydraulic system that substantially eliminates the overloads being applied to the gearbox by allowing the turbine to vary its rotor's rotational speed independently from that of the generator shaft. This contrasts with the conventional systems used which allow the generator shaft speed to vary. The TLG enables the generator speed to stay constant so that a synchronous generator can be used.

Furthermore the TLG may be used with a two- or three-bladed wind turbine.

In addition to the TLG principle, the Windflow 500 gearbox includes several innovative design features, notably the low-noise technology developed during the prototyping process at Gebbies Pass. Gearbox noise tends to dominate wind turbine sound levels, and this technology is a major contributor to the measured sound power from the prototype being below 101 dBA as measured independently by Malcolm Hunt Associates, a Wellington-based acoustic engineering firm, and peer reviewed by Marshall Day Acoustics, an Australasian-based acoustic consulting firm, under standard test conditions. (Further details of these firms are contained in section 10.3.4 and a copy of the letter from Malcolm Hunt Associates is contained in section 10.14.2.) This compares to around 108 dBA before the new technology was adopted, and to approximately 102 dBA -105 dBA from typical larger European turbines.

On the question of sound levels, NZ Windfarms Limited has considered the possibility of using larger European three-bladed windmills on the Te Rere Hau wind farm project. A typical design currently installed in New Zealand (with a 72 m rotor and 1.65 MW rating) has been compared by Malcolm Hunt Associates with the Windflow 500's proposed. Their simulations show that on the same Te Rere Hau site fewer large turbines would produce about the same annual energy and produce sound levels above 40 dBA (the New Zealand standard criterion) in about the same land area. Thus on the question whether or not fewer loud turbines would be quieter than more numerous quiet turbines, the answer based on the Company's assessment is: 'unlikely'.

Windflow's full-power gearbox test rig and a wind turbine blade were on display at the Engineering Machinery and Electronics Exhibition - Auckland, May 2004





The heart of the Windflow 500 system.

From left: The blades, hub, teetering and pitch actuation assemblies (pink); the gearbox (yellow) with hydraulic torque limiting system (green) and high speed shaft; the synchronous generator and nacelle electrical cabinet (blue) and hydraulic power unit and yaw motor (green).

7.3 Synchronous Generator

Windflow Technology Limited's TLG design enables turbines based on synchronous generators to be used. The Company has attracted considerable interest because of its use of synchronous generators. The Company believes that electrical integration has become an important issue facing the wind power industry worldwide. Conventional wind turbine designs use induction generators that can create power system stability problems when sufficient numbers are installed. The threshold

number depends upon the power system state and configuration. In some markets, for example in Ireland, this threshold had been reached and power system authorities there were embargoed from further wind power expansion using induction generators. For further information see www.eirgrid.com – the website of the Irish Transmission System Operator. The embargo in Ireland has since been lifted following recent improvements to that power system.

Furthermore, synchronous generators can be used to provide voltage support services when needed by electricity network operators depending on local network conditions. Providing voltage support is not dependent on wind availability. As a result, an additional revenue stream is created which is not available to turbines based on conventional induction or non-synchronous generators.

7.4 Weight, Durability and Cost

In summary, the application of the two-bladed teetering design and the proprietary torque-limiting gearbox mean that less bending and torsion is applied to the turbine shaft and gearbox when compared to conventional wind turbine designs. This means that lighter, less expensive components can be used in the turbine and its associated tower structure and anchoring system.

The synchronous generator permits the turbine to be used for voltage support services that may be purchased by electricity network operators as required, creating an additional source of revenue not available to turbines based on conventional induction generators, whether or not wind is available.

Furthermore, the synchronous generator allows the turbine to be installed on electricity networks whose system state and configuration would not allow conventional turbines with induction generators to be operated, without auxiliary voltage support equipment.

The Company believes that its new noise reduction technology puts the Windflow 500 turbine amongst the quietest machines on the market.

The synchronous generator permits the turbine to be a source of revenue whether or not wind is available.

At 500 kW rating, the Company believes the Windflow 500 turbine is optimised for New Zealand land-based conditions compared to large (1500 to 3000 kW) European turbines, which have been developed for installations in the seas around Northern Europe. The size of the Windflow 500 turbine gives additional downstream benefits. Lower heights mean that the structure presents less of a risk to low flying aircraft, and are not as visible as larger machines. The narrower tower presents less of a barrier to radio and radar transmission. Narrower access roads are sufficient because of the smaller cranes required. As a result, the Company expects that resource consents will be more easily obtained.

Windflow Technology Limited's own comparative analysis show that the Windflow 500 uses much less construction material and significantly increases the benefits to the local economy compared to imported conventional machines. For the same energy output, material usage is estimated to be reduced by a factor of approximately two and local content is increased by a factor in the order of three.

Put together, the two-bladed teetering design and the proprietary torque-limiting gearbox result in a more cost-effective wind turbine generator.



8. The New Zealand Wind Electricity Generation Industry

Average electricity demand has grown by 2.3% between 1999 and 2004. This growth rate is much larger than the growth in electricity supply over the same period. At the same time the industry is aware that the supply of Maui gas is ending and the lack of suitable sites for new hydro-electric generation mean that traditional means of meeting electricity demand are threatened. Gas-fired and hydroelectric generation systems have been the foundation of low electricity prices in New Zealand for over 40 years.

Thus the likelihood of power shortages in dry years continues to grow. During these periods, high electricity spot market prices severely impact industries that have slim margins and which are heavily reliant on electricity for their operations. Being aware of this, New Zealand industrialists are searching for alternative sources of power supply and some are considering building their own wind farms.

Considerable interest has been shown in wind power generation for some years. The Project Aqua lower Waitaki hydroelectric power generation scheme was cancelled due to the difficulty of obtaining resource consents, the long timescales and uncertainty about the cost of earthworks. This has brought home to the industry that such large-scale power generation developments, with their huge financial requirements to achieve economies of scale, will be increasingly unlikely under current economic and policy settings.

Consequently, the electricity industry has recognised that wind power is the best option for meeting anticipated electricity demand growth.

The two companies that have already invested the most in this form of generation, Meridian Energy Limited and TrustPower Limited have announced further plans to expand their wind power generation capacity both in New Zealand and Australia.

Meridian Energy Limited has announced plans for three sites in New Zealand that total a maximum of 300 MW of new generation capacity. It believes that over the next eight years there may well be up to 800 MW of wind power in its generation asset portfolio. This represents nearly a quarter of its power generation assets, which currently stand at 2,500 MW of hydroelectric generation. Furthermore, Meridian Energy believes that wind-generated electricity will be cheaper than either coal- or imported liquefied natural gas-fired generation. (Source: Transpower presentation given at New Zealand Wind Energy Conference, July 2004).

TrustPower has publicly signalled that it may build up to 200 MW of additional wind power generation in New Zealand over the next three years. It intends to invest a further \$220 million as part of the third stage of the development of its Tararua wind farm near Palmerston North. (Source: Transpower presentation given at New Zealand Wind Energy Conference, July 2004).

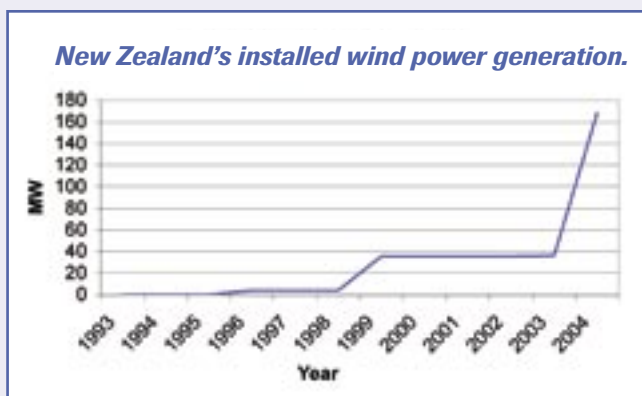
The Company is aware of the following wind farms that have been installed, or are planned for expansion or development:

Figure 2: New Zealand Wind Power Generation Industry

Company	Wind Farm Name	Location	Capacity MW		
			Existing	Planned	Source
Meridian Energy	Te Apiti	Near Palmerston North	90	90	1
TrustPower	Tararua	Near Palmerston North	68	120	2
Windcorp/Meridian	Makara Coast	Near Wellington	-	80	1
Meridian	Quartz Hill	Near Wellington	-	80	1
Wellington Regional Council	Belmont Hills	Near Wellington	-	80	1
Meridian Energy	White Hill	Mossburn, Southland	-	70	3
TrustPower	Seddon	Marlborough	-	60	1
NZ Windfarms	Te Rere Hau	Near Palmerston North	-	52	1
Dunedin City	Deep Stream	Hobson Hill, Otago	-	30	1
Wind Farm Developments	Wainui Hills	Near Wellington	-	30	1
WindPower Otago	Rock & Pillar	Near Middlemarch	-	25	4
Northpower	Glinkes Gully	Northland	-	20	1
Genesis Power	Te Awhitu	South Auckland	-	19	5
Genesis Power	Hau Nui	Wairarapa	9	5	6
Eastland Infrastructure	Mokairau	Gisborne	-	12	7
Unison Networks/ Hydro Tasmania	Titiokura	Hawkes Bay	-	120	8
Hawkes Bay Wind Farm	Maungaharuru Range	Hawkes Bay	-	220	9
Ventus Energy	Awakino Valley	Awakino	-	27	10
TOTAL			167	1,140	

Source

1. Transpower presentation given at New Zealand Wind Energy Conference, July 2004
2. TrustPower fact sheet, 23 December 2004.
3. Meridian Energy Limited press release, 21 December 2004.
4. Otago Daily Times, 16 December 2004.
5. Genesis Power website: www.genesispower.co.nz.
6. Ibid. Note 1, New Zealand Wind Energy Association website: www.nzwea.org.nz and Kerry Butler (Project Development Manager with Genesis Power Limited), email correspondence with Windflow Technology Limited, 6 February 2005.
7. Eastland Infrastructure.
8. Unison Networks press release, 22 April 2005
9. Wind farms Developments press release, 18 April 2005
10. 31 March 2005, The Wires as reported in NZWEA Newsletter N°18, 26 April 2005



Source: New Zealand Wind Energy Association www.nzwea.org.nz

9. Windflow Technology Limited

9.1 Early History

Geoff Henderson established Wind Torque Limited in 1990 on his return from seven years working in the wind industry in the USA and UK. During that time he invented and patented the torque-limiting gearbox for which he holds patents for New Zealand, Australia and the United States. An exclusive licence was granted to Wind Torque Limited for the Australasian markets for 20 years and a right to establish a wind farm on the Te Rere Hau site obtained from the landowner Aeolian Property Company Limited.

Windflow Technology Limited was incorporated on 13 October 2000. During 2001, it was successful in raising approximately \$2.6m mostly by public subscription from about 450 shareholders. The purpose of that capital raising was to provide funds for the development of a prototype 500 kW wind turbine utilising the technology developed by Geoff Henderson.

Following the successful capital raising for Windflow Technology Limited in 2001, he and other shareholders in Wind Torque Limited exchanged their shares for the Company's shares effectively transferring the assets of Wind Torque Limited to Windflow Technology Limited.

9.2 Technology Development

The prototype Windflow 500, which has been designed and built in New Zealand for local conditions, was installed at Gebbies Pass, 40 km from central Christchurch in July 2003. The main design features of this prototype are a hub height of 30 metres, a two-bladed teetering rotor with a swept diameter of 33 metres, use of the torque-limiting gearbox and a synchronous generator with the ability to produce a maximum of 500

kW of electricity which on a site with an average wind speed of 10 metres per second can produce approximately 1800 MWh of electricity per year. This is sufficient power for an estimated 200 homes.

Windflow Technology Limited's live prototype testing and certification programme has made considerable progress. The testing and resultant modifications have yielded new technology which has made the machine one of the quietest turbines compared to those currently on the market. The Company is currently seeking patent protection for this new technology. Furthermore, the live testing has proven to the Company the benefits of the two-bladed teetering system and the torque-limiting gearbox.

9.3 Strategic Focus On Technology Development, Production And Marketing

Windflow Technology Limited is a technology company focused on providing engineering expertise for the prototyping, development, construction and operation of wind turbines and especially those deploying its own technology. Any manufacturing requirements are outsourced although Windflow Technology Limited may take an equity stake in some joint venture entities that are contracted to undertake manufacturing or construction activities. Windflow Technology Limited does not intend to be a developer, owner or operator of any large-scale wind farm operations, preferring instead to promote a separate legal entity to undertake such activities. See the comments below on "Wind Farm Development".

Windflow Technology Limited is well advanced in building a batch of five wind turbines for a first

wind farm project at Te Rere Hau or elsewhere. The Company has made commitments to external suppliers totalling \$3.1 million, including payments made to date of \$1.9 million. These include:

- Taking a 50% stake in Auckland company Wind Blades Limited that has completed twelve blades for the batch of turbines, of which two blades will be used to re-build the prototype, plus a further blade for fatigue testing purposes.
- Building a full-power gearbox test rig, and entering into a contract for the supply of six more gearboxes from Auckland company A. H. Gears Limited, who have made various design improvements and made six complete new sets of gearing which are now being assembled.
- A contract for the supply of six sets of electrical and control gear from Christchurch firm Bremca Industries Limited.
- A contract for the supply of six hubs and sets of pitch mechanisms from Dunedin firm Farra Engineering Limited.
- A contract for the supply of six fabricated steel pallets from Christchurch firm Southern Cross Engineering Limited.
- Importing six generators, six sets of slewing bearings and six brake callipers that are now in stock in Christchurch.

Windflow Technology Limited has concentrated on developing, constructing and improving the effectiveness of its prototype Windflow 500 because the successful implementation of its technology is a pre-requisite of future marketing and commercial activities. The Directors and staff have kept in contact with the key prospective customers in New Zealand and Australia.

9.4 Wind Blades Limited

Windflow Technology Limited has formed a 50/50 joint-venture company called Wind Blades Limited with Peter Brooking and Bruce Tait. Brooking and Tait have adapted their fibreglass technology first developed for the boat building industry to the construction of wind turbine blades.

Their first composite material wind turbine blade was subjected to stress testing at the mechanical engineering Department of the University of Canterbury. These tests showed that the blade could withstand estimated wind speeds of greater than 250 km per hour, higher even than those recorded during the Wahine storm.

The company has already constructed thirteen blades for the first production batch of wind turbines, which includes a second blade to be sacrificed for testing.

Wind Blades Limited has continued to operate its boat-building business to supplement income from wind turbine blade production.



9.5 Wind Farm Development

9.5.1 NZ Windfarms Limited

The Company has formed a wholly owned subsidiary, NZ Windfarms Limited (NZWL). NZWL will be focused on the development, operation and ownership of new wind farms and intends to use Windflow turbines. Over time, it will be building a portfolio of electricity producing wind farms. In the long term, it may expand its portfolio abroad.

NZWL has a separate board of Directors, with three out of five Directors being independent from the Windflow Technology Limited board, including the chairman, Derek Walker. The two boards have been working together to develop a number of contracts between the two companies to ensure good governance for existing and new shareholders in both companies, and for new partnerships that NZWL will form in the future.

The first contract being developed is for the supply and purchase of 104 Windflow 500 turbines for the wind farm to be developed by NZWL on Aeolian Property Company Limited's land in Palmerston North (Te Rere Hau). This is located just inside the Palmerston North City boundary and the Company's wind speed surveys indicate that the potential production yield should rank alongside the best in the world. The site is located near the national grid and roads exist to provide ready access to the site.

A resource consent was recently granted under the Resource Management Act for this project. That decision has been appealed but the Directors of Windflow Technology Limited and NZWL are confident that the decision will be upheld on appeal.

NZWL has secured a contract with the New Zealand Government for carbon credits from its Te Rere Hau project. This contract for 519,000 tonnes of carbon credits is conditional on construction of the project by 31 December 2007 and on the wind farm performing as expected. Carbon credits are already trading at approximately NZ\$10 per tonne (based on the sale by Meridian Energy of its emission units to the Netherlands Government in December 2003 for an average price of NZ\$10.50), and based on those prices and in the opinion of

the Directors of Windflow Technology Limited the contract may generate income to NZWL in excess of \$5 million over the life of the contract.

With an estimated cost of \$80 million over three years, NZWL will require substantial new capital to be raised.

NZWL has signed a conditional agreement with potential partners N P Power Pty Limited and Babcock & Brown Windpower Pty Limited. Under the agreement, all three organisations agree to enter into a joint venture to develop the Te Rere Hau wind farm. N P Power and Babcock & Brown will fund half of the estimated \$80 million required to develop the wind farm and the remainder will be met by NZWL. Apart from an initial payment of \$3 million, the agreement is dependent on NZWL's partners completing feasibility studies on the Te Rere Hau wind farm site and the Windflow 500 turbine before the end of the year. Further details regarding the agreement can be found in the "Material Contracts" section of this document.

In addition, NZWL has identified several other sites where it should be possible to obtain the necessary resource consents and that have good potential for generating electricity using Windflow Technology turbines. This means that the success of NZWL is not wholly dependent upon the Te Rere Hau resource consent process.

Initially, Windflow Technology Limited will fund the early operations of NZWL. Once the subsidiary is sufficiently mature, it will embark on its own capital-raising programme. Windflow Technology Limited expects to retain a shareholding in NZWL to reflect its capital investment.

9.5.2 WindPower Otago Limited

Windflow Technology Limited has a 20% shareholding in WindPower Otago Limited, a company that has been established to develop a portfolio of wind farms in the Otago region. It has secured rights to a site near Middlemarch with the potential to generate up to 25 MW of electricity.

Geoff Henderson is Windflow Technology Limited's representative on the board of Directors. The other Directors are from Otago and include the leaseholder for the proposed site.

10. Statutory Information

10.1 Introduction

This is a Prospectus prepared in accordance with the Securities Act 1978 and the Securities Act (NZX-NZAX Market) Exemption Notice 2003 as at 27 April 2005 (the Specified Date).

10.2 What Sort of Investment is This?

Windflow Technology Limited, a company incorporated under the Companies Act 1993, is offering up to a maximum of 2,619,178 new fully paid Ordinary Shares in the capital of Windflow Technology Limited at an issue price of \$2.30 per share.

This renounceable offer is initially being made to existing shareholders, who are entitled to subscribe for one new share for every two shares already held. Any ordinary shares purchased after Friday 13 May 2005, the Record Date will not qualify the holders for any right to participate in the offer contained in this Prospectus.

New investors can obtain shares under the offer by firstly purchasing rights from existing shareholders and then exercising those rights on the same terms and conditions as existing shareholders. The amount to be paid for the rights will depend on the supply of and the demand for rights.

The new shares that are offered will rank equally with all existing Ordinary Shares. Each fully paid share gives the holder the right to one vote on a poll at a meeting of shareholders on a resolution, the right to dividends authorised by the Directors, and the right to an equal share in any distribution of surplus assets of Windflow Technology Limited on any liquidation. Investors should also refer to the constitution of the Company, which may be viewed during normal business hours at the Registered Office of the Company. The shares of the Company are listed on the NZAX market

operated by the NZX and the Company is subject to the Listing Rules issued by the NZX and modified by them from time to time.

The principal activities of the issuer are the design, manufacture and sale of wind turbines. Windflow Technology Limited started operations in October 2001.

10.3 Who is Involved in Providing It For Me?

10.3.1 Offerer, issuer and promoter

Windflow Technology Limited is the offeror, issuer and promoter of the ordinary shares and its Registered Office is:

C/- HFK Limited
Chartered Accountants,
12 Main North Road,
Christchurch,
New Zealand.

Its principal place of business is:

315 Manchester St,
Christchurch
PO Box 13 952, Christchurch
Phone +64 3 365-8960
Fax + 64 3 365-1402

The Company was incorporated under the Companies Act 1993 on 13 October 2000 and holds the registration number 1071533.

The Companies Office of New Zealand (www.companies.govt.nz) keeps a public file relating to the incorporation of the Company.

10.3.2 Directors

The full names, addresses and technical qualifications of the Directors are:-

Peter Barrie Leay, 41 Tirimoana Terrace, Anakiwa, RD Picton

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.

Heugh Maudsley Kelly, Shegadeens Road, R.D. 1, Wellsford. Heugh holds a law degree (LLB) from the University of Auckland

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

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

10.3.3 Advisors

The Company's securities registrars are:-

BK Registries Limited
138 Tancred Street
P O Box 384
Ashburton

The Company's investment bankers are:-

Kan & Company Limited
29 Coolspring Way,
Redwood Springs,
PO Box 33-200,
Christchurch.

The Company's solicitors are:-

Mortlocks
137 Armagh St
Christchurch

10.3.4 Experts

Two acoustic consulting firms are named on page 21. Their details are:

Malcolm Hunt Associates
Environmental Noise Consultants
First Floor
47 Cuba Street
Wellington

Malcolm Hunt holds the following formal qualifications:- Bachelor of Science, Victoria University; Master of Engineering (Mechanical), Canterbury University; Royal Society of Health Diploma in Noise Control and Post graduate diploma for Environmental Health Officers.

Marshall Day Acoustics
Auckland Office
156 Vincent Street
Auckland

Stuart Camp was the director of Marshall Day Acoustics who supervised the peer review. His formal qualifications are Bachelor of Science and Member of the Australian Acoustical Society.

Each expert has given (and has not withdrawn) his written consent to the distribution of this Prospectus with the statements attributed to them on page 21 included in that form and context. A copy of the letter from Malcolm Hunt is on page 44. Neither of the experts named is intended to be a director, officer or employee of Windflow Technology Limited (nor any of its subsidiaries). It is likely that Windflow Technology Limited and/or NZ Windfarms Limited will in the future seek professional advice from one or both of the experts in respect to noise assessments to accompany applications for resource consents under the Resource Management Act.

10.3.5 Subsidiaries

Windflow Technology Limited has no subsidiaries whose total tangible assets exceed 5% of the amount of the total tangible assets of the Windflow Technology Limited group of companies.

10.3.6 Significant Shareholders

The ten largest holders of equity securities of the issuer at a date not earlier than 30 days before the Specified Date and the amounts of their respective holdings are set out in the following table. These shareholders do not undertake any liability in respect of the shares being offered.

Name	Holding	Ownership %
1. Geoffrey Morgan Henderson	379,972	7.3
2. Jennifer Dawn Henderson	336,072	6.4
3. Mark Mellsop	247,525	4.7
4. Delane Wycoff	241,496	4.6
5. Paul Jonathan Simmons & Margaret Esther Simmons	169,382	3.2
6. Reda Holdings Limited	96,651	1.8
7. Bremca Industries Limited	73,500	1.4
8. Andrew Peter Rochford & Sabina Nicolette Rochford	71,956	1.4
9. Victor Noel Holmes & Christine Helen Holmes	58,370	1.1
10. Jeanette Mary Fitzsimons	50,000	1.0
10 th equal. Margaret Esther Simmons	50,000	1.0
Subtotal	1,774,924	33.9

Figure 3 Ten largest shareholders as at 4 April 2005

10.4 How Much Do I Pay?

Investors who hold rights to apply for the new shares pay \$2.30 per share applied for with the following limits:

There is no minimum number of shares that have to be applied for.

The maximum number of shares that can be applied for is the number of shares for which rights are held. The number of rights held is the number allocated to existing shareholders by way of the Letter of Entitlement contained within this Prospectus at the rate of one right for every two existing Windflow Technology Limited shares held at 4.30pm on Friday 13 May 2005 plus or minus any rights purchased or sold through rights trading.

All applications must be made on the Application Form accompanying this Prospectus and must be accompanied by a cheque made out to "Windflow Technology Limited" for \$2.30 per share applied for and either:

- Returned to your NZX Broker so that they can forward the application in time for it to be received by BK Registries Limited no later than 5.00pm on Friday 10 June 2005

or

- Mailed to

Windflow Technology Limited
C/- BK Registries Limited,
138 Tancred Street,
P O Box 384,
Ashburton.

and received by BK Registries Limited no later than 5.00pm on Friday 10 June 2005.

By submitting an Application Form, an applicant irrevocably agrees to be bound by the terms and conditions in this Prospectus (including the Application Form), the constitution of Windflow Technology Limited and the terms of the Offer of the shares. Once submitted, an application cannot be withdrawn. There is no provision to

accept late applications even if the application was posted or returned to your NZX Broker prior to the closing date.

If an investor fails to pay the appropriate amount before 5.00pm on Friday 10 June 2005 then that investor's entitlement to participate in this issue will lapse.

There is no "cooling off period" in which investors can change their minds once their subscription has been lodged.

The rights to which each shareholder is entitled are expected to have a value and any investor not intending to take up all or any of these rights are advised to arrange the sale of these surplus rights through any NZX broker.

Investors who do not hold rights to apply for shares (that is, investors who are not shareholders of Windflow Technology Limited on the record date of 13 May 2005) will need to purchase rights through the NZAX market. The price of those rights will depend on supply and demand for the rights. The investor will also be required to pay brokerage on the purchase of the rights. Brokerage rates differ between NZX firms. The sponsoring broker for Windflow Technology Limited is Greenslades Limited.

10.5 What Are The Charges?

Investors are not required to pay any charges to Windflow Technology Limited or any other party in relation to their application for shares. The only payment required is the \$2.30 per share issue price.

Holders wishing to consider selling some (or all of) their rights – or wishing to buy some more – should contact a New Zealand Exchange (NZX) firm. They are listed under "Sharebrokers" in the local Yellow Pages. They will advise holders of the price(s) at which buyers are prepared to purchase rights, assuming there are buyers at that time. They will also advise the charges or brokerage payable to that firm to buy or sell

rights, which is likely to depend on the dollar value of the transaction.

Any validly completed applications 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 firm.

Windflow Technology Limited will be meeting all the expenses of the Offer.

Windflow Technology Limited has no right under this Offer to impose any charges which would be payable by the Investors.

10.6 What Are The Directors' and Promoters' Interests?

10.6.1 Directors' Interests

Other than as Directors and in Geoff Henderson's case as an employee (whose contract can be terminated on less than 2 years notice without payment of compensation) there are no current contracts of service under which a Director is entitled to remuneration from the Company or its subsidiaries.

In the past 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, based on market rates for consultancy services, fixed the remuneration in those cases. Similar contracts may be entered into in the future. Geoff Henderson, Chief Executive Officer and Director, is an employee of the Company. His remuneration under this Agreement is reviewable annually and is currently \$88,000 per annum. He receives this in addition to his Director's Fee, which is currently \$18,000 per annum.

The Company has a licence from Geoff Henderson to use the torque-limiting gearbox

technology protected by New Zealand patent 231594 and Australian patent 622955. A royalty payment is due to Geoff Henderson from Windflow Technology Limited on the building of wind turbines incorporating that technology (other than turbines which are retained as demonstration units). No royalty has been paid in respect of the turbine installed at Gebbies Pass. 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. The terms of the licence enable Geoff Henderson, in certain circumstances, to take up additional shares in Windflow Technology Limited.



Explaining the gearbox at an Open Evening

Geoff Henderson is a Director of, and a minor shareholder in, Aeolian Property Company Limited (APCL). Windflow Technology Limited's subsidiary, NZ Windfarms Ltd has the right on certain terms and conditions to develop a wind farm on a property owned by APCL near Palmerston North. This is the property in respect of which NZ Windfarms Limited has been granted (with appeals lodged) a resource consent for the development of the Te Rere Hau wind farm.

The Directors are entitled to the following rights to new shares.

Director	Shareholding as at Specified Date	Ownership %	Entitlement
Barrie Leay (Chairman)	23,740	0.5	11,870
Keith McConnell	32,166	0.6	16,083
Heugh Kelly	22,500	0.4	11,250
Geoff Henderson and family interests	766,997	14.6	383,499
Total	845,403	16.1	422,702

Figure 4: Director’s shareholdings and entitlements

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. They have indicated to the Company that the majority of the proceeds from the sale of these rights will be applied to take up the entitlements they are seeking to exercise.

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

10.6.2 Material Transactions with Directors

Windflow Technology Limited has a Licence Agreement with Geoff Henderson as set out above. This licence was acquired by the Company following its initial public share offer in 2001 as one of the assets of Wind Torque Limited, the other asset being the right to build a wind farm on the Te Rere Hau site owned by Aeolian Property Company Limited. There was no lump sum consideration paid by Windflow Technology Limited to Geoff Henderson. The consideration is a royalty fee based the higher of 1% of the sale price or a lump sum based on the power rating of the gearboxes manufactured, used or sold containing the torque-limiting gearbox.

Geoff Henderson applied for the New Zealand and Australian patents on 30 November 1989 following several years working on the principles of a torque-limiting gearbox. The direct cost of obtaining and renewing the patents paid by Geoff Henderson up to today’s date is \$38,441.01. That figure does not include any provision for his time either during the inventing process, during the process of obtaining the patents or during the renewal of the patents.

10.6.3 Promoters' Interests

There are no promoters' interests to be disclosed.

10.7 What Returns Will I get?

10.7.1 New Ordinary Shares

As the holder of ordinary shares investors will receive any ordinary dividends declared from time to time by the Directors. The dividend policy as agreed by Directors is set out below in the following two paragraphs.

"As Windflow is a young company and is developing new technology into a rapidly expanding market there is no certainty that it will pay dividends at any time in the future. Indeed the cash requirements of a business in this situation may require the injection of additional capital for some time into the future.

However the Directors are aware that shareholders deserve to be rewarded for their investment, depending on the performance of the Company and the dividend policy as set out by the Directors from time to time. They will pay dividends when profitability and cash reserves allow this to occur on a prudent basis."

No dividends are promised by Windflow Technology Limited or any other party. There is no guarantee offered in respect of the shares by the Directors or any other party.

The date of the first dividend and the frequency of the subsequent dividends are unknown. The Company is the party legally liable to pay the returns.

The profitability of the Company will depend on the number of turbines it can sell, the price it can obtain for its turbines and the cost of manufacturing the turbines. The number of turbines it can sell will depend on many factors including demand for electricity in New Zealand and elsewhere, the demand for wind turbines compared to other forms of generation, whether the Company can prove to existing generators that its turbines are better than the turbines

currently available, the number of turbines it can sell to new generators (such as WindPower Otago Limited) and the extent to which the establishment of NZ Windfarms Limited is successful.

The price it can obtain for its turbines will depend on the price of competing machines and the perceptions of the purchasers as to the advantages and disadvantages of the competing products.

The cost of manufacturing the turbines is dependent on the volume of turbines being ordered and general manufacturing costs in New Zealand. The Company estimates that the full economies of scale will not be available to it until it is producing sixty turbines per annum.

As well as the profitability of the Company, the timing and size of any dividend will depend on any income tax the Company has to pay, any withholding tax the Company is required to deduct and the need to fund the working capital of the Company.

In addition to dividends, investors may also benefit from any increase in the market price of the shares at the date of sale. However, the market price of the shares may also decline and Windflow Technology Limited can give no assurances in respect of the future market price of shares. A number of factors affect the value of shares sold on the NZAX, many of which are outside the control of the Company. These factors include investor sentiment, stock market volatility, interest rate changes, economic activity levels and political uncertainty.

There is no certainty that anyone will be willing to buy a shareholder's shares at the time and/or price they offer them for sale.

10.7.2 Use of Proceeds

The use of the proceeds of the capital raising will depend on the amount raised and the progress that the Company has made subsequent to the date of this Prospectus (for example with the refurbishment of the prototype turbine, with the disposal of the appeals against the decision to grant a consent for the Te Rere Hau wind farm and with discussions with the possible joint venture partners for that wind farm). The funds raised are likely to be used to fund international certification work on the prototype turbine installed at Gebbies Pass, complete the establishment of NZ Windfarms Limited and complete the first production run of turbines and pay for up to 5 of those machines to be installed on the Te Rere Hau or another wind farm.

Funds will also be used to provide working capital. Funds may be used to install demonstration turbines in South Australia and elsewhere and to patent the noise reduction technology developed by the Company.

The Directors of the Company (other than Geoff Henderson) and Geoff Henderson (in his personal capacity) have had preliminary discussions regarding the possible purchase by the Company of the US patent that Geoff Henderson holds for the torque limiting gearbox. The purchase of the US patent would give Windflow Technology Limited access to that substantial market. No agreement has been signed and the detailed terms still need to be finalised. Any agreement would be subject to shareholder approval. The preliminary discussions have revolved around a payment to Geoff Henderson of \$NZ250,000 and a requirement for Geoff Henderson to use 60% of that amount to subscribe for additional shares in Windflow Technology Limited. The net cash payment by the Company would be \$100,000. This transaction may never take place or may not take place for some years.

As the funds are not being raised for a specific capital project the Directors are unable to give detailed advice as to the expected financial benefits other than to say that they expect that those projects will enable the Company to realise the benefits from the investments made so far by its shareholders and realise its vision of being a successful wind turbine manufacturer.

10.7.3 Rights

Holders of Ordinary Shares at the Record Date 4.30pm Friday 13 May 2005 will be offered rights at no cost. These rights will be quoted on the NZAX and may be traded on the NZAX during the period from 10 a.m. Monday 16 May 2005 until 4.30 p.m. Wednesday 8 June 2005.

The holder of these rights may either:

- a) Retain the rights and apply for new Ordinary Shares or
- b) Sell some or all of the rights during the rights trading period or
- c) Purchase additional rights during the rights trading period or
- d) Take no action (which is considered by the Directors to be unwise).

The return from the sale of any rights will depend on the price at which they trade on the NZAX. No person associated with this offer guarantees or promises that there will be any return from offering to sell the rights.

10.8 What Are My Risks?

There is no obligation on the Company to repay the money invested. The ability of investors to receive a return on the investment by selling the shares or by receiving dividends from the Company are dependent on the Company being able to develop and prove the technology behind the Windflow 500 and, ultimately, trade profitably. Windflow Technology Limited can give no assurances in respect of the future market price of the shares.

The Directors believe that the Company will make a loss in the full year to 30 June 2005.

The factors that will determine if and when the Company will trade profitably were discussed in section 10.7.1.

There is no risk that shareholders must pay in more money than the original subscription amount for the shares.

10.8.1 Specific Risks

This Prospectus contains forward-looking statements that involve risks and uncertainties. Windflow Technology Limited is a relatively young company selling a new and complex product into a developing and rapidly changing market. Therefore the plans are based on assumptions that may or may not eventuate. Actual results could be materially different from those discussed in the forward-looking statements as a result of certain factors, including those set forth below and elsewhere in this Prospectus. The following risk factors should be carefully considered in addition to the other information in this Prospectus before purchasing shares under this offer.

10.8.1.1 Technology Risk

Although the early field performance of the prototype Windflow 500 is encouraging and supports the theoretical competitive advantages of the technology, its marketability will depend on establishing a reliable track record for at least 3 months continuous running. To date various prototyping issues and recent storm damage have prevented this. Even when it is repaired and assuming it achieves 3 months continuous running, no one can be certain that this performance trend will continue for the entire design life of 20 years. If the Windflow 500 cannot prove its reliability as well as its competitive advantage in the market, this will erode the Company's business case.

10.8.1.2 Reliance on NZ Windfarms Limited and Otago Windpower Limited

There is no certainty that NZ Windfarms Limited (NZWL) will be successful in obtaining clear resource consents (one currently being under appeal) or the required capital to develop their proposed sites. It is estimated that NZWL will need to raise \$80 million in equity, debt and/or joint venture finance over a number of years to

fully develop the Te Rere Hau wind farm. Should this not be successfully completed then it would slow the projected rate of turbine sales and Windflow Technology Limited may lose access to one of the proposed sites for its turbines. The signing of a conditional agreement with N P Power Pty Limited and Babcock & Brown Windpower Pty Limited regarding a 50/50 joint venture to develop the Te Rere Hau wind farm is a significant step forward in this regard. Although Windflow Technology Limited has a 20% stake in WindPower Otago Limited there is no guarantee, at this stage, that WindPower Otago Limited will select the Company as its preferred supplier. Discussions regarding such arrangements are underway. See page 28 for additional details relating to the Te Rere Hau wind farm development project.

10.8.1.3 Turbine Size

Windflow Technology Limited's first turbine produces a maximum output of 500 kW or 0.5 MW. Recent announcements of wind farm projects have been for 1 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 industrialists.
- 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 100m. 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.

10.8.1.4 Reliance on Third Party Customers

The prospective third party customers for the Windflow 500 are the present New Zealand electricity generators, lines companies and large electricity users. So far they have been cautious to support new technology when it has not been proven. It is unclear at what point they will accept that the Windflow technology has been proven.

Windflow Technology Limited intends to sign an exclusive supply agreement with NZWL for the supply of the Windflow 500 for the Te Rere Hau wind farm project. However this agreement will be subject to the Windflow 500 prototype successfully completing its development programme and NZWL successfully raising the required capital and resolving the appeals to its resource consent on acceptable terms to develop the Te Rere Hau project.

10.8.1.5 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 the new 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 Government's present resolve for a future carbon tax may weaken which would 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.

10.8.1.6 Competitive Risks

European and United States companies will be the main competitors to Windflow Technology Limited in selling its turbines both now and in the future. There is a possibility that they might develop new technology and a solution, which negates the competitive advantages that the Directors believe are inherent in the Windflow 500. 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.

10.8.1.7 Reliance on Key Individuals

Windflow Technology Limited relies heavily on the talents and experience of its core team of engineers and in particular Geoff Henderson, Chief Executive Officer and Director. While much of this knowledge has been captured in the documentation relating to the Windflow 500, the loss of Geoff or any key members of his team would have a major negative impact. In order to mitigate this risk, the Company holds key person insurance to the value of \$500,000 over Geoff Henderson. Furthermore, the Company operates an Employee Share Option Scheme as an incentive for staff to remain with the Company. The total number of options granted to staff is less than 20,000. (The total number of shares on issue (prior to the rights issue) is over 5.2 million). The holders of the options will not receive rights to new shares unless they exercise the option before the record date and there will be no change to the terms of the options already granted as a result of the rights issue.

10.8.1.8 Government Electricity Industry Policy Changes

Unforeseen government policy changes may have a detrimental effect both directly and indirectly on the success of the business. In New Zealand, the Government has a significant involvement in the electricity market both from a regulatory and ownership perspective. The Government presently owns TransPower New Zealand Limited, the operator of the national grid, and three of the significant electricity generators (Meridian Energy Limited, Genesis Power Limited and Mighty River Power Limited) so its activities will have a significant effect on the operation of the electricity market and the prospects of being able to successfully sell wind turbines into that market.

10.8.1.9 Exchange Rate Risk

The main competitors to Windflow Technology Limited are overseas entities and sell into New Zealand in either US dollars or Euros. Should the New Zealand dollar appreciate against these currencies, these competitors will get a pricing advantage against the Company that sources 90% of its inputs in New Zealand dollars.

10.8.1.10 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. 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.

Furthermore, the Company's newly developed noise reduction technology has resulted in measured sound power from the prototype being below 101 dBA (as measured independently by Malcolm Hunt Associates, a Wellington-based acoustic engineering firm, and peer reviewed by Marshall Day Acoustics, an Australasian-based acoustic consulting firm, under standard test conditions). This compares to around 108 dBA before the new technology was adopted, and to approximately 102 dBA -105 dBA from typical larger European turbines.

As a result, the Company expects that resource consents will be easier to obtain on most grounds, and no more difficult to obtain on noise grounds, than with a European turbine.

10.8.1.11 Rights Issue

The forward-looking statements all assume that the rights issue is close to fully subscribed. 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 rights issue has a substantial shortfall then the growth prospects discussed in this Prospectus will be delayed. The capital raising is not conditional on any overall minimum subscription being raised.

10.8.2 Insolvency Risk

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.

Dividends will be paid if the Directors of Windflow Technology Limited consider that the Company's financial position is sufficiently strong. 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.

10.8.3 NZAX Listing

The securities offered in this prospectus are 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 listing. 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 broker.
- 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.

10.9 Can The Investment Be Altered?

Any changes to the Prospectus prior to its closure must be registered with the Companies Office.

The Constitution of the Company governs the rights that attach to these ordinary shares and only a Special Resolution of shareholders can change the Constitution. 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 the NZAX and need to be approved by the Minister of Commerce.

An investment can be altered through dilution (in the event of subsequent issues which the investor does not participate in) or through concentration (in the event of a share buyback and cancellation by the Company).

10.10 How Do I Cash In My Investment?

Being ordinary shares, there is no right of termination, cancellation, or surrender of the shares. 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 broker.

The securities (both new and existing) have been accepted for quotation by NZX on its NZAX market and will be quoted upon completion of allotment procedures. However, the 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.

10.11 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
315 Manchester St,
Christchurch
PO Box 13 952, Christchurch
Phone +64 3 365-8960
Fax + 64 3 365-1402
Email: info@windflow.co.nz

10.12 Is There Anyone To Who 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
315 Manchester St,
Christchurch
PO Box 13 952, Christchurch
Phone +64 3 365-8960
Fax + 64 3 365-1402
Email: 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
9th Floor, ASB Tower
2 Hunter 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.

10.13 What Other Information Can I Obtain About This Investment?

10.13.1 Financial Statements

The Company's most recent financial statements filed under the Financial Reporting Act are as at 30 June 2004. Copies of those accounts and the audit report from Goldsmith Fox PKF in respect of them are available from the Company's NZAX information portal on the NZAX website, www.nzx.com, or the Company's own Internet website, www.windflow.co.nz, or free of charge from the Company on request.

Unaudited interim financial statements as at 31 December 2004 have been prepared and are available from the Company's NZAX information portal on the NZAX website, www.nzx.com, or the Company's own Internet website, www.windflow.co.nz, or free of charge from the Company on request. These accounts are more detailed than the unaudited interim financial statements for the same period that were forwarded to shareholders in March 2005.

The financial statements for the Company as at 30 June 2001, 30 June 2002 and 30 June 2003 are available from the Company's NZAX information portal on the NZAX website, www.nzx.com, or the Company's own Internet website, www.windflow.co.nz, or free of charge from the Company on request.

A copy of the Constitution, the 30 June 2004 financial statements and the material contracts referred to on page 43 may be inspected, free of charge, at the offices of Mortlocks, Lawyers, Level 7, 137 Armagh Street, Christchurch between the hours of 9am and 4pm Monday to Friday. These documents are also available from the Registrar of Companies. The contact details for the Companies Office are

Private Bag 92061
Auckland Mail Centre
Auckland.

Investors may like to visit the Windflow Technology Limited website on www.windflow.co.nz. Considerable information on the Company, the wind power industry and other relevant matters are contained thereon. The website is regularly updated.

As a matter of policy the Directors will seek to keep shareholders informed about their investment by circulating regular Newsletters, making themselves accessible on an on-going basis and convening appropriate shareholder functions such as has been done a number of times in the last year.

As a modern technology company, Windflow Technology Limited has a marked preference to be able to communicate with its shareholders by way of email. Because of the ease, speed and low cost of this means of communication shareholders who are accessible by this medium may receive more information and on a more timely basis than shareholders without. However the Company is very aware of its statutory obligations in this regard.

All requests for information should be made to:

Ms Terry Moon
315 Manchester St,
PO Box 13 952,
Christchurch.
Phone +64 3 365-8960
Fax + 64 3 365-1402
Email: info@windflow.co.nz

No charge is payable for any information supplied.

10.13.2 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.

10.13.3 Annual And Half Yearly Information

Shareholders will receive each year a Half Year Report and an Annual Report as is required by the Companies Act, the Constitution and/or the NZAX Listing Rules.

10.13.4 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 13
- Brochure on the Windflow 500
- The Short Form Prospectus including Investment Statement for the rights issue conducted in July-August 2003.

These can be obtained by contacting the office as follows:

Ms Terry Moon
315 Manchester St,
PO Box 13 952,
Christchurch.
Phone +64 3 365-8960
Fax + 64 3 365-1402
Email: 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.

10.14 Other Important Information

10.14.1 Material Contracts

The material contracts that have been entered into by Windflow Technology Limited or any of its subsidiaries at any time in the two years before the Specified Date (other than contracts entered into in the ordinary course of business) are:-

- (a) An agreement dated 8 November 2003 between Windflow Technology Limited and Tait-Brooking Contracting Limited under which the parties agreed to incorporate and operate a joint venture company to be called "Wind Blades Limited". Wind Blades Limited would initially construct 13 wind turbine blades and then the future of the joint venture company would be re-assessed. That re-assessment has recently been completed and the joint venture company is going to continue operating and will undertake other fibreglass fabrication work until an order is placed for another batch of wind turbine blades.
- (b) An agreement dated 18 December 2003 between NZ Windfarms Limited and the Crown under which the Crown will, if NZ Windfarms Limited complies with certain conditions and deadlines, allocate "Emission Units" to NZ Windfarms Limited. The major conditions relate to the commencement of operation of the Te Rere Hau windfarm in stages over a period ending in late 2007. The allocation of the Emission Units is part of the Government's commitment to comply with the requirements of the Kyoto Protocol. The number of Emission Units that will be allocated to NZ Windfarms Limited is capped at 519,000 and is conditional on the Te Rere Hau wind farm being fully commissioned and operating at over 90% availability from 1 January 2008. At the date of this prospectus, and based on the sale by Meridian Energy of its emission units to the Netherlands Government in December 2003 for an average price of

\$NZ10.50 the opinion of the Directors of Windflow Technology Limited is that the estimated potential income to NZ Windfarms Limited over the life of the agreement is over \$5 million assuming all the potential carbon credits are allocated.

- (c) A conditional agreement dated 29 March 2005 between Windflow Technology Limited, N.P. Power Pty Limited and Babcock & Brown Windpower Pty Limited. N.P. Power Pty Limited and Babcock & Brown Windpower Pty Limited are both incorporated in Australia. The agreement provides that Windflow Technology Limited may, at its cost, erect a Windflow 500 turbine in stage 2 of the Lake Bonney windfarm in South Australia to demonstrate its technology to the other parties to the agreement. Windflow Technology Limited receives the net income from the turbine and the other parties are responsible for selling the power generated by the turbine.

The agreement is conditional on Windflow Technology Limited raising sufficient funds pursuant to this offer to be able to fund the erection of the turbine in Australia and on the other parties obtaining the necessary consents to enable the construction and operation of the Windflow 500 turbine.

- (d) A conditional agreement dated 31 March 2005 between NZ Windfarms Limited, N.P. Power Pty Limited and Babcock & Brown Windpower Pty Limited. The agreement is to enter into a joint venture to develop the Te Rere Hau wind farm. It is intended that the joint venture partners, N.P. Power Pty Limited and Babcock & Brown Windpower Pty Limited, will be meeting half the costs of developing the estimated \$84 million dollar development.

A payment of \$3 million by NPBB is due on 31 December 2005 as their initial contribution to the Te Rere Hau joint venture. Subsequent payments are conditional on NPBB completing, by 31 December 2005, feasibility studies on the wind farm site and the Windflow 500 turbine. If NPBB confirms feasibility, the parties will then develop a formal joint venture agreement by 30 March 2006. The preliminary timetable is to have the first Windflow 500 installed on the site by the end of 2005.

10.14.2 Copy of letter from Malcolm Hunt Associates



Malcolm Hunt Associates

NOISE & ENVIRONMENTAL CONSULTANTS
First floor, Arco House, 47 Cuba Street, PO Box 11-294, Wellington
Telephone 04 472 5689 Fax 04 473 0456
mha@noise.co.nz www.noise.co.nz

13 February 2005

Mr Geoff Henderson
Director,
Windflow Technology Limited
PO Box 13-952,
Christchurch
New Zealand

Dear Geoff,

You have asked me to summarise the work I have carried out for you in relation to:

- a) measurement of sound emissions of the Windflow 500 sound levels following remedial work by yourselves to reduce sound levels, and;
- b) calculation of expected sound levels in the vicinity of your proposed Te Rere Hau wind farm near Palmerston North and comparison with sound levels under an alternative scenario if the project were to use larger European three-blade windmills instead.

I have conducted sound level measurements of the demonstration Windflow 500 turbine situated at Gebbies Pass, Christchurch. The results showed no evidence of a previous tonal component at 315Hz within in the overall sound spectrum. I have used my measurements to derive the sound power level (source strength) of the Windflow 500 turbine using procedures set out in international standard IEC 61400-11 *Wind Turbine Generator Systems – Part 11: Aconstric noise measurement techniques*. The results gathered to date indicate sound power level of 100.7 dBA at IEC 61400-11 standard wind conditions of 8 m/sec. This level of sound output is quite modest when compared to sound output from overseas turbines.

As you are aware, I provided predicted sound level information and the assessment of noise effects included in the consent application for the Te Rere Hau wind farm which has recently been granted planning consent. I have compared the total sound output using 104 Windflow 500 turbines with sound output if the same electrical energy were generated using an alternative turbine currently installed at another windfarm in New Zealand (with a 72 metre dia. Rotor, 1.65 MW rating). The predictions show the land area encompassed by the 40 dBA sound level contour for the Te Rere Hau site would be approximately the same for both scenarios.

Yours sincerely,

Malcolm J Hunt

PROFILE – Malcolm Hunt B.Sc., M.E.

Malcolm Hunt is a Wellington-based noise and environmental consultant with over 15 years experience. Malcolm has a B.Sc. and M.E. degree in mechanical engineering, and qualifications in noise control and environmental health. Malcolm has been on international ISO technical committees and is a member of the NZ Acoustical Society. He was one of the lead aconstricians in the development of NZS6808:1998 "Acoustics – Assessment & Measurement of Sound From Wind Turbine Generators" and has wide experience in the measurement and prediction of environmental noise. For further information, see: www.noise.co.nz

Malcolm Hunt does not intend to be a director, officer or employee of the issuer of the prospectus.


10.14.3 Directors' Statement

After due inquiry by the Directors in relation to the period between the date of the latest statement of financial position referred to in this prospectus and the Specified Date, there have not, in their opinion, arisen any circumstances that materially adversely affect:

- The trading or profitability of the issuing group; or
- The value of its assets; or
- The ability of the issuing group to pay its liabilities due within the next 12 months.

This Prospectus has been signed by all of the Directors of Windflow Technology Limited.

Barrie Leay



Geoff Henderson



Heugh Kelly



Keith McConnell



11. How to Invest

You may take one of the following actions:

- (a) ACCEPT your Entitlement in full,
- (b) ACCEPT your Entitlement in full and OFFER TO BUY FURTHER RIGHTS through any NZX firm
- (c) ACCEPT PART of your Entitlement and OFFER TO SELL THE BALANCE; or
- (d) OFFER TO SELL your Entitlement in full.
- (e) If you are not currently a Windflow Technology Limited shareholder, then you can BUY RIGHTS through any NZX broker.
- (f) TAKE NO ACTION and allow your Entitlement to lapse. The Directors believe this is unwise as any potential value to you is lost and the Company loses the opportunity to raise the capital it needs to grow.

1. To accept your entitlement in full

- 1.1 Complete the enclosed Letter of Entitlement and Acceptance Form in accordance with the instructions on that form;
- 1.2 Attach your cheque or bank draft for the amount required to be paid at \$2.30 per ordinary share in accordance with the payment instructions set out below; and
- 1.3 Preferably forward your completed Letter of Entitlement and Acceptance Form and your cheque or bank draft to:

Windflow Technology Limited
c/- BK Registries Limited
138 Tancred Street
P O Box 384
Ashburton

in sufficient time to enable the forms to be received by the Share Registrar by 5.00 pm Friday 10 June 2005.

You may also lodge your Letter of Entitlement and Acceptance form and cheque with any NZX firm in sufficient time to enable the forms to be forwarded by them and received by the Share Registrar by 5.00 pm Friday 10 June 2005.

Cheques dated after 10 June 2005 will not be accepted. Applications cannot be revoked or withdrawn.

2. To accept your entitlement in full and acquire further rights to shares

- 2.1 Follow the instructions in point 1 above to accept your Entitlement in full.
- 2.2 Contact any NZX firm to offer to acquire rights to further shares before rights trading ceases at 4:30 p.m Wednesday 8 June 2005.
- 2.3 Complete the Letter of Entitlement and Acceptance Form for additional rights acquired and forward to the Share Registrar or to any NZX firm in sufficient time to enable the forms to be received by the Share Registrar by 5.00 pm Friday 10 June 2005.

3. To accept part of your entitlement and sell the balance

- 3.1 Complete the enclosed Letter of Entitlement and Acceptance Form for the number of ordinary shares you wish to accept in accordance with the instructions on that form and instruct any NZX firm to offer to sell the balance not taken up by you.
- 3.2 On completion of the sale (if there is one), complete and sign Part 1 of the Security Renunciation / Share Transfer Form (which forms part of the Letter of Entitlement and Acceptance Form) for the balance.

3.3 Attach your cheque or bank draft for the amount required to be paid, in accordance with the payment instructions set out below; and

3.4 Forward the completed Letter of Entitlement and Acceptance Form, together with your cheque or bank draft, and completed Security Renunciation / Share Transfer Form to the NZX firm which acted for you in the sale of your rights in sufficient time to enable the forms to be received by the Share Registrar by 5.00 pm Friday 10 June 2005.

3.5 If the Company receives a renunciation and an acceptance in respect of the same rights, the renunciation shall be given effect in priority to the acceptance.

4. To sell your entitlement in full

4.1 Instruct an NZX firm to offer to sell your rights. If you wish to sell your rights you must do so before rights trading ceases at 4:30 p.m. Wednesday 8 June 2005.

4.2 Complete and sign Part 1 of the Security Renunciation / Share Transfer Form (which forms part of the Letter of Entitlement and Acceptance Form), ensuring you have included the entitlement number shown on the Letter of Entitlement and Acceptance Form and attach your unsigned Letter of Entitlement and Acceptance Form to the completed Security Renunciation / Share Transfer Form and send it to the NZX firm which acted for you in the sale of your rights, in sufficient time to permit the documents to be forwarded so as to be received by the Share Registrar no later than 5.00 pm Friday 10 June 2005.

4.3 If the Company receives a renunciation and an acceptance in respect of the same rights, the renunciation shall be given effect in priority to the acceptance.

5. To buy entitlements if you are not already a Shareholder

5.1 Contact any NZX firm to offer to acquire rights to shares before rights trading ceases at 4:30pm on Wednesday 8 June 2005.

5.2 Complete the Letter of Entitlement and Acceptance Form for additional rights acquired and forward to the Share Registrar or to any NZX firm in sufficient time to enable the forms to be received by the Share Registrar by 5.00 pm Friday 10 June 2005.

6. Payment instructions

6.1 The ordinary shares are payable in full by payment of \$2.30 per ordinary share on acceptance. Payment must be made in New Zealand dollars.

6.2 Cheques or bank drafts drawn on overseas banks in New Zealand dollars will be accepted.

Cheques or bank drafts are to be made payable to 'Windflow Technology Limited' and crossed 'Not Transferable'.

12. Directory

12.1 Staff

Business Development Manager/NZWL CEO	Chris Freear
Senior Mechanical Engineer	Warwick Payne
Electrical and Control Systems Engineer	Wernher Roding
Office Manager	Terry Moon
Mechanical Design Engineer	Gavin Williams
Engineering Analyst	Francis Jackson
Marketing Assistant	Sheralee MacDonald
Procurement Manager	Alan White

12.2 Accountants

Mike Keyse
 HFK Limited
 12 Main North Road
 PO Box 5071
 Christchurch

12.3 Auditors

Goldsmith Fox PKF
 236 Armagh Street
 PO Box 13 141
 Christchurch

12.4 Bankers

The National Bank of New Zealand Limited
 20 Main North Road
 PO Box 5034
 Christchurch

12.5 Insurance Brokers

Marsh Limited
 233 Cambridge Terrace
 PO Box 1591
 Christchurch

12.6 Investment Bankers

Kan & Company Limited
 29 Coolspring Way
 PO Box 33 200
 Christchurch

12.7 Lawyers

Mortlocks
 Level 7, 137 Armagh St
 PO Box 13 480
 Christchurch

12.8 Principal Suppliers

Blades	Wind Blades Limited of Auckland
Gearbox	A. H. Gears Limited of Auckland
Hub	Farra Engineering Limited of Dunedin
Electrical Control	Bremca Limited of Christchurch
Generator	Newage International Limited of UK (Sydney office)
Pallet	Southern Cross Engineering Limited of Christchurch
Tower	Acme Engineering Limited of Lower Hutt
Foundations/Craneage	Smith Crane & Construction of Christchurch
Civil Design /Surveying	Connell Wagner Limited of Christchurch
Product Certification	Lloyd's Register of London