



Windflow Technology Limited

Short Form Prospectus
Including Investment Statement

July - August 2003



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Stage 2 Rights Issue

Investment Highlights

It is the Directors' view that:

- Wind power is acknowledged by electricity experts as having a key role in meeting New Zealand's future electricity needs.
- New Zealand has an abundance of farmable wind and the resource is renewable and non-polluting.
- A difficulty with New Zealand's wind is that its strength is highly variable and prone to strong, unpredictable gusting.
- The founder of Windflow Technology Limited (Windflow or the Company) has developed a turbine, which has superior capability to withstand strong gusts while continuing to produce electricity. The heart of this technology is the patented "torque-limiting gearbox".
- In 2001, Windflow raised over \$2.6m in its public offer to fund the Stage 1 development of the turbine. The development work has gone very well – on budget and meeting performance targets.
- Stage 1 has culminated in the erection of Windflow's first working turbine at Gebbies Pass on Banks Peninsula. It has been successfully commissioned and is now operational.
- As stated in the 2001 Prospectus, further capital is now needed to fund the Stage 2 development, which includes additional testing of the first working turbine and the manufacture of up to 6 further turbines.
- Windflow has experienced strong support from the electricity industry and the engineering profession. The Company's product has struck a chord with those who understand the potential of wind power in New Zealand and Australia.
- Amongst those expressing enthusiasm are potential substantial customers who are looking forward to the turbines being commercially available. Windflow anticipates turbine sales commencing in the year ending 30 June 2004.

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Date and Registration of this Prospectus

This Short Form Prospectus is dated 25th July 2003.

A copy of this Short Form Prospectus signed by all the Directors of Windflow Technology Limited has been delivered to the Registrar of Companies for registration under Section 42 of the Securities Act 1978

Chairman's Letter

Dear Windflow Shareholder,

As your Chairman, I am pleased to be able to confirm to you that Stage 1 of the development of the Windflow 500 is now complete and we are poised to launch Stage 2.

Stage 2 requires a new funding round as anticipated in the 2001 Prospectus and as was also outlined to, and supported by, the shareholders at last November's Annual General Meeting.

Our Chief Executive Officer and Director, Geoff Henderson, and his team have successfully turned the concept and designs for a superior wind turbine for New Zealand conditions into the reality of the Company's first working turbine, in operation now at Gebbies Pass on Banks Peninsula.

Development of the Stage 1 turbine progressed very smoothly and was completed substantially on budget and met performance targets. The significance of this should not be underestimated. In addition to being very satisfying in an era where most long-term projects seem to go over-budget, it also confirms that the Company has a quality engineering team, capable of achieving stated milestones. For an engineering business, this is very important.

An important recent development for Windflow has been the increase in public interest in alternative electricity sources. This is in part a consequence of longer-term factors such as the Kyoto Accord and the declining Maui gas reserves; and in part the short term electricity "crisis" New Zealand potentially faced earlier this winter.

While it is satisfying from Windflow's perspective to attract the level of media and public attention the Company has had, we consider the bigger issue to be achieving a wider understanding of the importance of wind power in New Zealand's future and an acceptance of it as a credible, financially viable, environmentally friendly and sustainable form of electricity generation.

As a Board it is gratifying to have a body of shareholders who had the vision to anticipate the exciting future for wind power only now being more widely recognised. We commend this rights issue to you as an opportunity to build on your existing investment in that future.

Yours sincerely



Barrie Leay
Chairman

Summary of Offer

Entitlement

As a shareholder in Windflow, the offer under this Short Form Prospectus entitles you to apply for one new share for every share you held at 5.00pm on Friday 25 July 2003.

From the date of record, 5pm Friday, 25 July 2003, the entitlements are no longer attached to the shares. In other words if you sell your shares after record date, you nonetheless retain ownership of the rights.

If you held Windflow shares but sold them before 5pm Friday, 25 July 2003, your entitlement has been transferred to the acquirer of those shares.

Use of Proceeds

The total proceeds of the Offer will be \$5,492,890 if fully subscribed.

The funds raised will be used for the purposes set out on page 14, which include:

- Continue testing of the first pre-production turbine.
- Construct up to six production turbines.
- Develop Windflow's systems and composition of staff to more effectively meet the company's growth strategies.
- Pay issue expenses, further details of which are set out on page 32.
- Fund market development activities.

Price

The shares offered under this Short Form Prospectus will be issued at a price of \$2.00 per share.

If you sell part or all of your entitlement, the acquirer of that entitlement will also need to pay \$2.00 per share to exercise that entitlement.

Minimum Subscription Level

There is no minimum subscription level for the overall capital raising. The minimum subscription for each shareholder is discussed on page 2 of the Investment Statement. The Constitution provides that the Company may decline to accept a transfer of less than 2,000 shares. The current policy of the Directors is to encourage a minimum shareholding of 1,000 shares and the Company reserves the right to reject any application which, together with any existing shares already held by that applicant, will result in that applicant holding less than 1,000 shares. If you need further information on this please contact Windflow using the contact details on page 5 of the Investment Statement.

Underwriting

This rights issue is not underwritten.

Closing Date for Applications

The holders of the entitlements can exercise their rights at any time during the offer period by posting the completed application form with a cheque for \$2.00 per share.

The offer period runs from Monday 28th July – Friday 29th August 2003.

The Share Registry must receive all applications by 5.00pm on Friday 29th August 2003.

If you are submitting your application through your Share Broker, please ensure that they receive the application in sufficient time before the closing date to forward your application to the Share Registry before that deadline.

Entitlements (Rights) Trading

Entitlements to shares are often referred to as “rights” and the process of buying and selling them is called “rights trading”. The term “renounceable rights” recognises that the holder of the rights can “renounce” or sell them.

The rights trading period for this offer is 10am Monday 28th July to 5pm Wednesday 27th August 2003.

During this time holders of the rights can offer to sell part or all of their entitlement through New Zealand Exchange Limited’s Unlisted Securities Market (USM).

Buying and Selling Rights

If you wish to consider selling some (or all) of your rights – or wish to buy some more – you should contact a New Zealand Exchange (NZX) firm. They are listed under “Sharebrokers” in your local Yellow Pages. Greenslades Ltd is the company’s sponsoring broker and can assist those who do not have a sharebroker. They can be contacted at:

Greenslades Ltd

Christchurch:	Alexandra Dalzell Ph 03-366-7973 Toll free 0508-667-070 Fax: 03-377-3238 Email: alex.dalzell@greenslades.co.nz	Dunedin:	Paul Valk Ph 03-477-5900 Toll free 0800-888-866 Fax: 03-477-6743 Email: paul.valk@greenslades.co.nz
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Your share broker will advise you of the price(s) at which buyers are prepared to buy your rights, assuming there are buyers at the time of your inquiry.

They will also advise the charges or brokerage payable by you, which is likely to depend on the dollar amount of the transaction.

Windflow will be paying brokerage at the rate of 1.5% or a minimum of \$60 on validly completed application forms (with cheques) that bear a broker’s stamp for shares under the offer, but not on the sale of rights.

There is no guarantee that any rights you offer for sale – or any rights you seek to buy – will be bought or sold.

What To Do If You Sell Your Rights

If you sell your rights, the sharebroker who acts for you should send you a form to complete and return. This form acknowledges the sale of the rights and transfers the rights to the buyer, who can then exercise them.

Full or Partial Acceptance

You have a large measure of flexibility over the exercise of your rights entitlement. You can:

- Accept the offer in full;
 - Buy more rights and accept for the increased number you would then own;
 - Sell some rights and accept the offer for the balance;
 - Sell all your rights.
-

Don’t Do Nothing

The only option that is ill advised is to do nothing. Your rights have potential value. If you do not exercise them and do not sell them, you are effectively depriving yourself of the opportunity of a financial gain.

The Directors encourage you to take full advantage of the rights that have been allocated to you. You could do that by accepting the offer and taking up the additional shares yourself or offering to sell the rights or a mixture of both. If you do nothing the rights are wasted and the Company loses the opportunity to raise the additional cash it needs to progress its plans.

Confirmation of Share Ownership

Windflow is now using the FASTER share registration system, which is used by all companies listed on the New Zealand Stock Exchange and many companies whose shares are quoted on the Unlisted Securities Market.

Under this system shareholders do not receive share certificates. Rather, they receive a FASTER statement from BK Registries.

All successful applicants in this offer will be sent a FASTER statement by BK Registries Ltd. Thereafter, every time shareholders buy or sell Windflow shares, they will receive an updated statement of their new shareholding.

Financial Summary

STATEMENT OF FINANCIAL PERFORMANCE (\$000's)

Group Accounts Financial year ending 30th June	Unaudited					
	Actual F2002	Actual* F2003	Projected F2004	Projected F2005	Projected F2006	Projected F2007
Sales	4	17	4,154	13,664	20,614	41,164
Less Cost of Sales	0	0	5,468	14,166	19,333	36,201
Gross Margin	4	17	(1,314)	(503)	1,281	4,963
Plus Other Income	94	60	4	60	9	12
Less Expenses	836	1,232	1,458	1,502	1,587	1,587
Net Profit before Tax	(738)	(1,155)	(2,769)	(1,945)	(297)	3,387
Less Tax	0	0	0	0	0	0
Net Profit After Tax	(738)	(1,155)	(2,769)	(1,945)	(297)	3,387

STATEMENT OF FINANCIAL POSITION (\$000's)

Current Assets	1,807	166	2,894	1,894	2,744	8,077
Intangible Assets	1,080	916	982	799	616	433
Investments	0	0	200	200	200	200
Fixed Assets	350	1,101	976	848	721	594
Total Assets	3,237	2,183	5,051	3,741	4,280	9,304
Current Liabilities	100	95	95	95	95	95
Term Liabilities	0	0	0	0	0	0
Total Liabilities	100	95	95	95	95	95
Net Assets	3,137	2,088	4,956	3,646	4,185	9,209
Represented By						
Share Capital	3,875	3,981	9,415	9,415	9,415	9,415
Retained Earnings	(738)	(1,893)	(4,662)	(6,606)	(6,903)	(3,516)
Total Shareholders' Funds	3,137	2,088	4,754	2,809	2,512	5,899

STATEMENT OF CASH FLOWS (\$000's)

Cash from Operating Activities	(357)	(884)	(2,637)	(2,056)	109	3,095
Cash from Investing Activities	(296)	(810)	(450)	0	0	0
Cash from Financing Activities	2,394	63	5,334	0	0	0
Net Cash Flow	1,741	(1,631)	2,248	(2,056)	109	3,095

See pages 27 to 29 for full detailed projections and the assumptions on which they are based. Windflow expects to pay dividends as profitability allows and as it starts to pay tax, creating imputation credits. Windflow is not anticipating paying any dividends in the projected period.

* The financial performance for the year to 30 June 2003 is made up of the audited nine months result to 31 March 2003 and the unaudited management accounts for the months of April, May and June 2003.

Key Dates

Action	Date
Record Date for the calculation of entitlements	5pm, Friday 25th July 2003
Rights trading commences on USM	10am, Monday 28th July 2003
Rights trading ceases on USM	5pm, Wednesday 27th August 2003
Latest date for the Letter of Entitlement and Acceptance Form and cheques to be received by the registry	5pm, Friday 29th August 2003
Allotment of new ordinary shares and mailing of FASTER Statements	Wednesday 3rd September 2003

Share Trading History

Date of trade	Number of shares traded	Price of trade
13 April 2002	2,011	\$1.850
28 May 2002	2,000	\$2.100
12 September 2002	34,000	\$2.260
11 April 2003	2,000	\$2.500
9 May 2003	2,008	\$3.000
6 June 2003	1,246	\$2.800
6 June 2003	2,500	\$2.800
9 June 2003	2,000	\$3.005
7 July 2003	3,500	\$3.750

These are all the trades the company is aware of. It is possible there have been others, but unlikely, given the company's knowledge of changes to its share register.

On the 24th July, 2003, there were 5 bids to buy Windflow shares on the USM at prices ranging from \$3.10 to \$3.40.

The Board of Directors

The Directors of Windflow are:

Barrie Leay, Chairman

The Meadows, Makara, Wellington

Barrie was until mid-1997 Executive Director of the Electricity Supply Association of New Zealand. He is currently Chairman of Ecodyne Limited, a company established to develop environmentally benign forms of power generation, Managing Director of e-services Limited, an Internet company involved in energy networks and energy efficiency, 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 took over as Chairman of Windflow in June 2003 following the unfortunate death of Neil Cherry from motor neurone disease. Neil had been the inaugural Chairman. In his honour the prototype Windflow 500 at Gebbies Pass is named after him.

Vicki Buck, Deputy Chairman

14 Jane Deans Close, Christchurch

Vicki Buck is the Development Manager at the Christchurch Polytechnic Institute of Technology. She has an M.A. (Hons) degree and was the Mayor of Christchurch from 1989 until she stood down in 1998. Since then she has been heavily involved in establishing two new state schools in Christchurch. A former Director of the Reserve Bank, and a member of the Prime Minister's Science and Innovation Advisory Council, Vicki is involved in a wide range of companies and activities. She is also a Director of Jade Stadium Ltd and Brylton Software Ltd

Geoff Henderson, Chief Executive Officer and Director

12 Scotston Avenue, Christchurch

Geoff is a registered mechanical engineer who has been involved in wind power engineering for twenty years, including seven years in California and England working at the forefront of wind power technology. During that time he invented the torque-limiting gearbox, which has been patented in New Zealand, Australia and the United States. In 1994 he received the Communications Award from the Institute of Professional Engineers (IPENZ) for his contribution to the engineering profession as a proponent of wind power. Geoff is past Chairman of the Canterbury Branch of IPENZ. He is also a director of Aeolian Property Company Ltd, the New Zealand Wind Energy Association and Windflow's non-trading subsidiary companies, Wind Torque Ltd, New Zealand Wind Farms Ltd and Pacific Wind Farms Ltd.

Heugh Kelly, Director

Shegadeens Road, R.D. 1, Wellsford

Heugh is a barrister and solicitor with over 15 years experience of commercial law. Educated at Auckland Grammar School and the University of Auckland, he has been in practice on his own account since 1984. He is a director of the Environmental Defence Society which is a position he has held since 1981 and was a member of the legal committee of the Maruia Society for some years.

Keith McConnell, Executive Director

10 Cleveland Rd, Auckland

Keith has served as Chief Executive Officer of a number of commercial entities over the last 15 years. These include John Edmond Ltd, Donaghy Downs Pty Ltd, The Power Company Ltd, United Electricity Ltd, Paykel Ltd and most recently Fruehauf Pacific Ltd. His involvement with wind energy first arose during his tenure with The Power Company Ltd where he sponsored a wind testing programme at three sites in Southland. Keith has also been involved in several successful start-up ventures (e.g. Metering Systems Ltd and Supply Solutions) and has a good understanding of the issues involved in such ventures.

Keith is presently acting in a part time executive role within Windflow by assisting with many of the commercial matters.

Directors' Interests

- Geoff Henderson, Chief Executive Officer and Director, has an Employment Agreement. His remuneration under this Agreement starts at \$88,000 per annum and is reviewable annually.

The company has a licence from Geoff to use the torque limiting gearbox technology protected by New Zealand patent 231594 and Australian patent 622955. A royalty payment is due to Geoff from Windflow on the building of each subsequent wind turbine incorporating that technology. The terms of the licence enable Geoff, in certain circumstances, to take up additional shares in Windflow. For more detail see page 23.

Geoff is a director of, and a minor shareholder in, Aeolian Property Company Limited. Windflow Technology Limited has the right on certain terms and conditions to develop a wind farm on a property owned by Aeolian Property Company Limited near Palmerston North.

- Keith McConnell, Executive Director, whose business is the provision of business advisory services, periodically undertakes commercial assignments for Windflow. Most recently the work involved has been the compilation and co-ordination of this capital raising. Half of the fees he will receive for this work are contingent on a successful raising. If this capital raising is fully subscribed, Keith will have an option to subscribe for up to 8,750 shares at an exercise price of \$1.50 per share as part compensation for his services. This arrangement is subject to shareholder approval at the next Annual General Meeting.
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Directors' Entitlements in this Offer

Director	Shareholding as at 25 July 2003	Entitlement
Barrie Leay	16,000	16,000
Vicki Buck	0	0
Heugh Kelly	15,000	15,000
Keith McConnell	16,000	16,000
Geoff Henderson and family interests	652,368	652,368

Geoff Henderson, the Chief Executive Officer and Director of Windflow, 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 USM. They have indicated to the Company that the proceeds from the sale of these rights will be applied to take up the entitlements they are seeking to exercise.

Activities of the Company

Windflow 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 500kW wind turbine utilising the technology developed by Geoff Henderson.

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. The licence was granted to Wind Torque Limited for the Australasian markets for 20 years. Following the successful capital raising for Windflow in 2001, he and other shareholders in Wind Torque Limited exchanged their shares for Windflow shares.

The prototype Windflow 500 has been installed at Gebbies Pass, 40 kms from downtown Christchurch. 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 500 kW of electricity which on a site with an average wind speed of 10 metres per second can produce 1800 MWh of electricity per year. This is sufficient power for about 200 homes.

Windflow is a technology company 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 may in the future take an equity stake in some joint venture entities that may be contracted to undertake manufacturing or construction activities. Windflow 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 "New Zealand Windfarms Ltd".

To date, Windflow has concentrated on developing and constructing 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. It is expected that this will continue into the future although after the successful completion of this capital raising, Windflow will be expanding its permanent staff to handle the regional sales and marketing and the overseeing of the manufacturing of turbines and their constituent parts.

The July 2001 prospectus and investment statement included very detailed projections. Rather than amend those projections on a line-by-line basis they have been replaced by a new set of projections and notes, which appear on pages 27 to 29. For example projections in the 2001 Prospectus were based on a selling price of \$950,000 for the first four turbines and \$725,000 for the next 20. The directors consider that the initial and long-run selling price should be amended to \$675,000 to obtain market penetration and the projections are now based on that figure.

The Constitution authorises the Directors to issue shares without shareholder approval in a number of situations. In order to preserve the cash resources of the company and in an attempt to build successful long-term relationships with a number of critical suppliers, the Directors have issued shares to a number of parties since the allotment of shares under the original prospectus. The details of those shares are:

Date of Issue	Recipient	Reason for issue	Number of shares	Price
13/10/2000	5 Initial Directors	Services rendered to date	75,000	\$1.00
8/10/2001	444 Subscribers in Stage 1 Prospectus	Cash	1,656,985	\$1.50
8/10/2001	25 Existing Shareholders in Wind Torque Ltd	Acquisition of WTL (share swap)	800,406	\$1.50
8/10/2001	10 Persons who provided cash for issue expenses	Cash	99,254	\$1.00
18/11/2001	G M Henderson	In lieu of cash for Wind Torque debt	15,000	\$1.00
14/2/2003	Heather McNaughtan	Cash – pursuant to employee share option scheme	1,500	\$2.00
25/2/2003	Bremca Industries Ltd	Part payment for goods and services – pursuant to agreement prior to Stage 1 prospectus	30,000	\$1.50
12/6/2003	A H Gears Ltd	Part payment for goods and services – pursuant to agreement dated 2/5/02	39,000	\$1.50
23/7/2003	Alan White	Cash - pursuant to employee share option scheme	1,800	\$2.00
23/7/2003	Wind Blades Ltd	Part payment for goods and services – pursuant to agreement prior to Stage 1 prospectus	27,500	\$1.50
	TOTAL		<u>2,746,445</u>	

Competitors

The Directors believe that globally the largest supplier of wind turbines is Vestas Wind Systems A/S (Vestas), which is based in Denmark and which achieved worldwide sales of approximately 1.2b Euros in the 2001 calendar year. Windflow estimates that this represents an estimated global market share of 20%. NEG-Micon and other Danish companies are estimated to have a combined 30% share of the world market raising the total share of Danish companies to approximately 50%.

Outside of the Danish companies, Windflow considers the most significant supplier to be GE Wind, which was formerly Enron and Enercon, a German company. Their global market share is estimated at 10% each.

In New Zealand, the Directors understand that Vestas is the predominant supplier. Vestas provided turbines for TrustPower's 48 turbine farm in the Tararua Ranges above Palmerston North. TrustPower has announced plans to add another 55 turbines there in the next 12 months.

NEG-Micon and GE Wind are also believed to be active in New Zealand.

The Australian market is believed to be similar.

Competitive advantage

Windflow considers there to be four items of competitive advantage that are designed into the Windflow 500 turbine. They are:

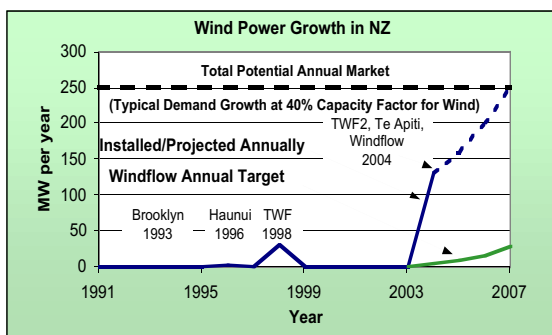
1. The ability of the torque-limiting gearbox to reliably operate in the high wind speed and robust turbulence conditions that are prevalent in New Zealand.
2. The reduction of loads from the use of the two blade teetering system as compared to the three-blade system deployed by most European manufacturers.
3. The provision of network support through the use of a synchronous generator.
4. These three features combine to allow 50% less tower top weight (11 tonnes instead of 20 tonnes), which in turn results in a significantly reduced capital cost.

Growth Prospects

Windflow has strong growth prospects within its core activities of design, development, manufacture and marketing of wind turbines. These growth prospects are driven by dynamics in the New Zealand electricity market; both recently occurred and anticipated changes in government policy and expressions of interest from various parties.

The New Zealand Electricity Market

The serious concerns about electricity shortages and the national campaign to conserve electricity during the 2003 winter highlight the continuing demand for new electricity generation capacity. Furthermore, recent announcements of wind powered generation schemes demonstrate that such systems are now a credible component in the mix of technologies considered for this purpose.



Source: Windflow Technology, July 2003

The above diagram shows that Windflow's target is a relatively small percentage of the total potential market that can be met by wind power. Brooklyn and Haunui were early wind power generation projects developed by other parties. TWF means Tararua Wind Farm, a wind power generation project developed by TrustPower.

Windflow believes that increasing electricity prices, the difficulties in obtaining resource consents for conventional plant and pressures to comply with the Kyoto Accord on atmospheric emissions will combine to build a favourable marketing environment for its products.

Windflow estimates that the New Zealand market for wind generated electricity has the potential to grow by 250 megawatts annually.

Electricity Line Companies are Potential Customers

The Electricity Industry Reform Act 1998 which prevented lines companies (companies that owned and operated electricity power line networks) from generating electricity and selling energy, was amended in 2001 by the Electricity Industry Reform Amendment Act. The legislation now allows lines companies to build uncapped renewable energy projects and to trade electricity once again.

Other Potential Customers

Apart from the existing electricity generators in New Zealand and Australia (all of which are believed to be at various stages of evaluating wind power as a generation means) and the lines companies, there is a new customer sector that is opening up to Windflow. There are a number of significant commercial enterprises that have an interest in directly owning their own generation as a means to hedge their electricity costs. Because wind power can be built in small increments (as opposed to hydro or thermal), it is particularly attractive to these customers, especially if others can handle the building and operation of the turbines. For those enterprises, which are also embracing sustainable development concepts, there is an additional reward in such involvement.

Beyond these commercial enterprises, a number of Windflow's shareholders have expressed an interest in being involved in wind power projects. For many of these individuals, the amount of investment in a whole wind turbine is too large but they would be interested in ownership through some form of syndication.

New Zealand Windfarms Ltd

Windflow sees the establishment and operation of a specialist windfarm company as the vehicle to meet these customer needs. Such a windfarm company would be responsible for developing and managing all aspects of one or more windfarms at suitable sites around New Zealand. Some of the wind turbines could be directly owned by third party enterprises (or syndications of individuals) with the windfarm company responsible for all operational matters. In other cases the wind turbines would be owned and managed by the windfarm company itself. In the case of the directly owned turbines the power output would be sold pursuant to the owners' instructions (on the wholesale market or under a direct off-take contract).

Windflow has registered a company by the name of New Zealand Windfarms Limited for the purpose of being that specialist windfarm company. Windflow intends to promote a public capital raising by this company but will take only a small shareholding itself. It is intended that New Zealand Windfarms Ltd would buy Windflow turbines as these are likely to be best suited to New Zealand operation in the long term.

New Zealand Windfarms Ltd will need to raise capital before buying the turbines.

Proposed Use of Funds to be Raised

Windflow announced in July 2003 that it had successfully commissioned its prototype Windflow 500 wind turbine at Gebbies Pass. The turbine has now been running for ten weeks and the early indications are that it is performing to expectations. It will however take some months to fully test the turbine in all weather conditions.

The plans for growing the Company have always included a further capital raising after the successful commissioning of the prototype. At the time of the Annual General Meeting in November 2002 the shareholders strongly supported a rights issue to the existing shareholders as the means of raising that capital. After taking into account all factors, the Directors have resolved that the Company should seek up to an additional \$5,492,890 in capital by offering existing shareholders a one for one rights issue at \$2.00 per share.

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

- The plans for this capital raising as outlined in the 2001 Stage 1 Offer Document. As envisaged then, Windflow would in the longer term operate as a technology company with outsourced manufacturing operations and not as a large-scale developer and owner of wind turbines. More recently the Directors are of the view that they should promote a special purpose wind farm company that would develop and own wind farms and be an early customer for the Windflow 500 turbines. See the section above "New Zealand Windfarms Ltd" and comment below.
- Progress to date with the Windflow 500 is reinforcing the competitive advantage Windflow considers this turbine will have in the robust New Zealand wind conditions.
- The growing realisation by New Zealanders that wind does have a significant place in the electricity future of the country as gas reserves dwindle, electricity demand increases and we appear to have more frequent dry years.
- Commercial interest in wind power elsewhere in the Asia/Pacific region is growing all the time. Australia has in place an aggressive programme to increase its renewable energy resources and this is seeing considerable investment at the present time.
- "Time waits for no man" and this is particularly true for sellers of new technology. To optimise its opportunities Windflow must maintain the momentum which has been building over the last 18 months.

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

- On going engineering work on the Windflow 500 both at the installed unit at Gebbies Pass and future units to be built. The approximate cost of this for 12 months is \$400,000.
- Provision of funds for the evaluation, preparatory work and capital raising for the launch of New Zealand Windfarms Limited as the country's first standalone windfarm operator and major customer for Windflow. Windflow has already undertaken a reasonable amount of preparatory work on site selection and evaluation, financial projections and commercial arrangements in anticipation of this step. The costs of completing this preparatory work and final flotation are estimated at \$200,000. It is intended that upon a successful flotation of New Zealand Windfarms Limited that this \$200,000 will be repaid to Windflow by the issue of shares to that value. Windflow does not intend to own any more than a small shareholding in New Zealand Windfarms Ltd and it is intended that New Zealand Windfarms Ltd will operate as an independent company but with a close relationship with Windflow.
- The building of up to six Windflow 500 turbines. The costs of manufacturing these six units are budgeted at \$750,000 each or a total of \$4.5 million for all six. It is planned that these units will be sold to either third parties or to New Zealand Windfarms Limited, which would then bear the costs of installation and on-site construction.

Should all six units be sold for \$675,000 each (which is the long run selling price that has been set for the Windflow 500), Windflow would recoup \$4.050 million of the \$4.5 million that it expects to outlay to build the six units. The \$450,000 shortfall arises from the fact that long run manufacturing costs will not (based on estimates and quotes from the existing suppliers) reach a profitable plateau until 30 or more turbines per year are being manufactured, which is not expected to be achieved until 2006 or beyond.

- The development and possible settlement of a proposal to purchase from Geoff Henderson all his rights under the United States patent subject to subsequent shareholder approval. The proposed purchase includes a capital payment of \$250,000 of which amount Geoff Henderson proposes to apply 60% to the purchase of additional shares in the Company.

In describing the intellectual property that would in the future be controlled or owned by Windflow Technology Limited, the 2001 Prospectus and Investment Statement referred to the "Asia-Pacific" region. The Directors consider that this was imprecise as the patent protection extends to Australia and New Zealand only and in the remainder of that territory, protection of the technology relies on copyright.

The following description of the intellectual property more clearly details the intellectual property controlled or owned by Windflow Technology Limited as at the date of this document.

The intellectual property owned or controlled by the Company is one of its major assets. The intellectual property currently includes:

- (a) A licence from Geoff Henderson to use the torque limiting gearbox concepts in Australia and New Zealand (which was obtained via obtaining control of Wind Torque Limited)
- (b) All of the drawings, diagrams, specifications and other intellectual property that was developed by Geoff Henderson and Wind Torque Limited between 1990 and late 2001 (also obtained by obtaining control of Wind Torque Limited).
- (c) All of the drawings, diagrams, specifications and other intellectual property that has been developed by Windflow over the last 18 months.

Risks

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

Technology Risk

Although the early field performance of the prototype Windflow 500 is encouraging and supports the theoretical competitive advantages of the technology, no one can be certain that this performance trend will continue for the entire design life of 20 years for the turbine. If the Windflow 500 cannot prove its competitive advantage in the market, this will totally erode its business case.

Reliance on New Zealand Windfarms Limited

There is no certainty that the proposed flotation of New Zealand Windfarms Limited as a major customer will be successful. It is estimated that New Zealand Windfarms Ltd will need to raise \$49m over 3 years. Should this not be successful then Windflow would lose access to one of the proposed customers for its turbines with no certainty of alternative purchasers, or at least take longer to sell the turbines than presently envisaged.

Turbine Size

Windflow's first turbine produces a maximum output of 500 kW or 0.5 MW. Recent announcements of wind farm projects have been for 1MW machines. There is a risk that the market may be favouring larger machines than that initially designed by Windflow.

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

- It fills a niche market for small-medium industrialists
 - New Zealand Windfarms Ltd will be purchasing machines best suited to New Zealand operating conditions
 - Larger machines will be difficult to erect on steep ridgelines typical of the New Zealand terrain.
-

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 users. So far they have been reluctant to support new technology when it has not been proven. It is unclear when they will accept that the Windflow technology has been proven.

In the event that neither New Zealand Windfarms Limited nor any third parties buy any of these six wind turbines, then the additional costs Windflow would incur to install and commission them on a suitable site are estimated to be \$1.5 million. If Windflow was to install these on its own account, it would need to raise this money to proceed or reduce the number of turbines built.

Electricity Market Risk

There is no certainty that the electricity market will turn to wind power to meet future generating requirements. There is a possibility that significant new gas supplies will be found and at a price that means that it is considerably more attractive than wind power. The Government may change the environmental legislation so that some presently unacceptable hydro solutions become feasible. The Government's present resolve on the Kyoto Accord and 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 undermine the present attractiveness of wind power.

On the other hand, Windflow believes that its projected sales of 30 MW per year by 2007 correspond to:

- 12% of the estimated New Zealand market by 2007
- 20% of the estimated Australian market by 2005
- 3% of the estimated current US market
- 0.4% of the estimated 2002 global market.

Competitive Risks

European and United States companies will be the main competitors to Windflow 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's own plans, diagrams and specifications which are protected by copyright).

There is no patent protection for the basic torque limiting gearbox technology outside of those three countries.

Reliance on Key Individuals

Windflow relies heavily on the talents and experience of Geoff Henderson, Chief Executive Officer and Director. Over the last 18 months a lot of that experience and talent has been recorded in the documentation relating to the Windflow 500. In addition Geoff has built around him a small and capable team to whom he is passing over his knowledge. However 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.

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, the operator of the national grid, and three of the significant electricity generators (Meridian Energy, Genesis Power and Mighty River Power) 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.

Exchange Rate Risk

The main competitors to Windflow 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 Windflow which sources 90% of its inputs in New Zealand dollars.

The current projections have been made in New Zealand dollars and no foreign exchange risk has been factored in.

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 readily obtained.

Rights Issue

The forward-looking statements and projections 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 projected in this offer document will be delayed.

Minimum Subscription

There is no minimum subscription for this rights issue. Consequently there is a risk that insufficient funds will be raised to carry out the plans as laid out in this prospectus. If this were to occur then the funds raised would be used as working capital to maintain the company's current operations and to raise additional capital by an alternative means. In the unlikely event that alternative capital cannot be found then the company will fall back on the revenue from the output of its Gebbies Pass turbine to maintain operations albeit at a much more modest level than what is currently the case. The company holds a 10-year supply agreement with the Christchurch City Council that should allow the company to operate for at least the duration of that contract.

Guarantee

The shares being offered are not guaranteed by the Directors or any other party.

Interim Accounts for Nine Months to 31st March 2003

STATEMENT OF FINANCIAL PERFORMANCE

For the period ended 31st March 2003

	Notes	Nine Months to 31 March 2003		Nine Months to 30 June 2002	
		Group \$	Parent \$	Group \$	Parent \$
OPERATING REVENUE:	1				
Consultancy Fees Received		15,524	15,524	4,725	4,725
Funding received		9,066	9,066	-	-
Interest received		47,029	47,029	93,799	93,799
		71,619	71,619	98,524	98,524
OPERATING EXPENSES:	2				
Amortisation of Licences & Wind Rights		112,557	112,557	135,007	135,007
Engineering Costs		424,682	424,682	193,919	193,919
Research and Development Costs		17,819	17,819	17,640	17,640
Marketing Costs		43,671	43,671	7,813	7,813
General and Administration Costs		260,759	260,172	453,040	453,040
Depreciation		23,073	22,765	29,412	29,412
		882,561	881,666	836,831	836,831
NET DEFICIT		(810,942)	(810,047)	(738,307)	(738,307)

STATEMENT OF MOVEMENTS IN EQUITY

For the period ended 31st March 2003

	Notes	Nine Months to 31 March 2003		Nine Months to 30 June 2002	
		Group \$	Parent \$	Group \$	Parent \$
Equity at Beginning of Period		3,137,034	3,137,034	-	-
Net Deficit		(810,942)	(810,047)	(738,307)	(738,307)
Contributions from Owners					
Ordinary Shares Issued during the Year		48,000	48,000	3,875,341	3,875,341
Equity at End of Period		2,374,092	2,374,987	3,137,034	3,137,034

STATEMENT OF FINANCIAL POSITION

As at the 31st March 2003

	Notes	As at 31 March 2003		As at 30 June 2002	
		Group \$	Parent \$	Group \$	Parent \$
SHAREHOLDERS' EQUITY:					
Share Capital	6	3,923,341	3,923,341	3,875,341	3,875,341
Retained Earnings Account	8	(1,549,249)	(1,548,354)	(738,307)	(738,307)
TOTAL SHAREHOLDERS' EQUITY		2,374,092	2,374,987	3,137,034	3,137,034
CURRENT LIABILITIES:					
Accounts Payable	9	173,403	173,403	100,001	100,001
TOTAL CURRENT LIABILITIES		173,403	173,403	100,001	100,001
TOTAL EQUITY AND LIABILITIES		2,547,495	2,548,390	3,237,035	3,237,035
CURRENT ASSETS:					
Cash on Hand and at Bank		114,438	114,438	140,708	140,708
Term Deposits	10	344,931	344,931	1,600,610	1,600,610
Tax Refund Due		-	-	28,064	28,064
Accounts Receivable	10	15,381	15,381	11,350	11,350
Prepayments		7,223	7,223	-	-
GST Refund		33,269	33,269	25,865	25,865
Other Assets		-	16,396	-	15,809
TOTAL CURRENT ASSETS		515,242	531,638	1,806,597	1,822,406
NON CURRENT ASSETS:					
Fixed Assets	11	1,064,756	1,063,707	350,384	349,027
Intangible Assets	12	967,497	953,045	1,080,054	1,065,602
TOTAL NON CURRENT ASSETS		2,032,253	2,016,752	1,430,438	1,414,629
TOTAL ASSETS		2,547,495	2,548,390	3,237,035	3,237,035

Signed for and on behalf of the board as at the 2nd of July, 2003:

Director
Director




G M Henderson
K J McConnell

STATEMENT OF CASH FLOWS

For the period ended 31st March 2003

	Notes	Nine Months to 31 March 2003		Nine Months to 30 June 2002	
		Group \$	Parent \$	Group \$	Parent \$
CASH FLOWS FROM OPERATING ACTIVITIES:	20				
<i>Cash was provided from:</i>					
Receipts from consulting fees		9,204	9,204	4,725	4,725
Funding Received		9,066	9,066	-	-
Income Tax Refunded		28,064	28,064	-	-
Interest received		57,466	57,466	82,450	82,450
		103,800	103,800	87,175	87,175
<i>Cash was disbursed to:</i>					
Payments to suppliers		511,121	510,225	163,381	163,381
Payments to employees		218,290	218,290	252,383	252,383
Interest paid		-	-	504	504
Income Tax		-	-	28,063	28,063
		729,411	728,515	444,331	444,331
NET CASH FLOWS FROM OPERATING ACTIVITIES		(625,611)	(624,715)	(357,156)	(357,156)
CASH FLOWS FROM INVESTING ACTIVITIES:					
<i>Cash was disbursed to:</i>					
Development of the Wind Turbine and associated costs		684,842	685,151	189,026	189,026
Purchase of other fixed assets		6,675	6,675	107,453	107,453
		691,517	691,826	296,479	296,479
NET CASH FLOWS FROM INVESTING ACTIVITIES		(691,517)	(691,826)	(296,479)	(296,479)
CASH FLOWS FROM FINANCING ACTIVITIES:					
<i>Cash was provided from:</i>					
Issue of Shares		48,000	48,000	2,553,182	2,553,182
		48,000	48,000	2,553,182	2,553,182
<i>Cash was disbursed to:</i>					
Issue Costs of Equity		12,822	12,822	157,420	157,420
Advance to Wind Torque Limited		-	587	809	809
		12,822	13,409	158,229	158,229
NET CASH FLOWS FROM FINANCING ACTIVITIES		35,178	34,591	2,394,953	2,394,953
NET INCREASE (DECREASE) IN CASH HELD		(1,281,950)	(1,281,950)	1,741,318	1,741,318
CASH AT BEGINNING OF THE PERIOD		1,741,318	1,741,318	-	-
CASH AT END OF PERIOD		459,368	459,368	1,741,318	1,741,318

Statement Of Accounting Policies

For the period ended 31st March 2003

Reporting Entity

Windflow Technology Limited is a company registered under the Companies Act 1993.

Windflow Technology Limited is an issuer for the purpose of the Financial Reporting Act 1993.

The financial statements of the Company and Group have been prepared in accordance with the Financial Reporting Act 1993.

The Company and its subsidiary comprise the group.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the group.

Nature Of Business

Wind power development.

The Company operates solely within New Zealand.

Specific Accounting Policies

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of the financial performance, financial position and cash flows are set out below:

Basis of Consolidation

The consolidated financial statements are prepared from the financial statements of the Company, and its subsidiary, using the purchase method.

All significant inter company transactions are eliminated on consolidation.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company.

In the Company's financial statements, investment in the subsidiary is recognised at cost or fair value if there is a permanent diminution in value.

Revenue Recognition

Revenues are recognised when services are performed

Depreciation

Depreciation is calculated on a straight-line basis which will write off the cost of the assets evenly over their expected useful lives. For major classes of plant and equipment, motor vehicles, the expected useful lives are:

Wind Turbine & Associated Assets	10.0 years
Motor Vehicle	4.6 years
Office Equipment	2.5 to 10.0 years

Investment Revenue

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

Goods and Services Tax

The accounts have been prepared on a GST exclusive basis; except that all receivables and payables are shown GST inclusive to the extent that GST is payable or receivable on the transaction that gave rise to the payable or receivable.

Taxation

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

Any income tax expenses charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

A deferred tax benefit relating to tax losses is recognised only if there is a virtual certainty of realisation.

There is no deferred tax asset or liability as at the 31st March 2003.

Valuation of Assets

Receivables

Receivables are stated at their estimated realisable value

Fixed Assets

The Company has the following classes of assets

Wind Turbine and Associated Assets

Motor Vehicle

Office Equipment

All fixed assets are recorded at cost.

Depreciation is provided for on a straight line basis on all tangible fixed assets at depreciation rates calculated to allocate the assets cost less estimated residual value, over their estimated useful lives.

No depreciation has been claimed on part constructed assets.

Major depreciation periods are:

Wind Turbine and Associated Assets	10.0 years	(To commence on completion)
Motor Vehicle	4.6 years	
Office Equipment	2.5 to 10.0 years	

Intangibles

1. Research and Development Costs

Research expenditure is recognised in the statement of financial performance in the period in which it is incurred.

Development costs are deferred where future benefits are expected to exceed those costs, otherwise such costs are recognised in the statement of financial performance in the period in which they are incurred.

Development expenditure, recognised as an asset, is stated at cost and amortised in the statement of financial performance over the period of expected benefits.

All other development expenditure is recognised in the statement of financial performance as incurred.

2. Licences

Licences are valued at fair value and amortised to the statement of financial performance on a straight line basis over their estimated useful lives, this has been determined to be 8 years and the write off to be one eighth, per financial period. For any lesser period the one eighth is apportioned on a monthly basis.

The Directors determined fair value and a summary of the terms and conditions in regard to the acquisition of this intellectual property was listed under clauses 7 and 11, note 17.4 of the Prospectus, dated 9th July 2001.

Comparative Figures

The Company commenced trading in October 2001. The comparatives are for the nine month period ended 30th June 2002.

As per Clause 5.17 of the Financial Reporting Standard 24 (Interim Financial Standards), comparative information for the previous corresponding interim period has not been provided as interim financial statements are being prepared for the first time.

Employee Entitlements

A liability for annual leave and long service leave is accrued and recognised in the statement of financial position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

A share option plan to the benefit of employees of the Company is in existence.

Foreign Currency Transactions

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

Interim Financial Statements

The accounting policies for interim financial statements are consistent with those of the annual financial statements.

Changes in Accounting Policies

There have been no changes in accounting policies during the period.

Notes To The Financial Statements

For the period ended 31st March 2003

	9 Mths to 31 Mar 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
1. Operating Revenue				
Operating Revenue includes:				
Consultancy fees	15,524	15,524	4,725	4,725
Interest received – Term deposits	47,029	47,029	93,799	93,799
2. Operating Expenses				
Operating Expenses include:				
Amortisation of licences and wind rights	112,557	112,557	135,007	135,007
Research and Development Costs	17,819	17,819	17,640	17,640
Audit Fees	4,150	4,150	540	540
Directors' Fees	62,500	62,500	75,000	75,000
Interest – Bank overdraft	-	-	504	504
Prospectus Costs (including audit fees of \$ 8,908)	-	-	251,165	251,165
Rent and Leases	7,750	7,750	10,319	10,319
3. Prospectus Costs				
Total costs	-	-	251,165	251,165
4. Taxation				
Operating Deficit	810,942	810,047	738,307	738,307
Prima facie taxation expense at 33%	-	-	-	-
Less taxation effect of permanent differences	-	-	-	-
Amortisation of Intangibles	112,557	112,557	135,007	135,007
Issue Costs	251,165	251,165		
	363,722	363,722		
	447,220	446,325	603,300	603,300
Losses brought forward	603,300	603,300	-	-
Deficit and losses carried forward for taxation purposes	1,050,520	1,049,625	603,300	603,300
There is no income tax payable for the period.				
5. Imputation Credit Account				
Balance at beginning of period	28,064	28,064	-	-
Income tax refund the during the year	28,064	28,064	4,725	4,725
	-	-	-	-
Income tax payments during the year:				
Resident withholding tax paid	-	-	28,064	28,064
Balance at end of period			28,064	28,064
6. Share Capital				
Balance at beginning of period	3,875,341	3,875,341		
Ordinary shares issued	48,000	48,000	3,875,341	3,875,341
Total share capital	3,923,341	3,923,341	3,875,341	3,875,341
Number of shares on issue	2,678,145	2,678,145	2,646,645	2,646,645

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Reserves

Balance at beginning of period				
Less reduction in value of shares	-	-	(1,200,609)	(1,200,609)
Plus write up in value of licenses & wind rights	-	-	1,200,609	1,200,609
Balance at end of period	-	-	-	-

7. Share Option Plan

The Company entered into a share option plan with Mr G Henderson, the CEO/Director on the 20th January 2002. This put in to effect the terms of the Licence Agreement as outlined in the prospectus, dated 9th July 2001, and as summarised below. The agreement transferring the TLG Licence from Wind Torque Ltd to Windflow Technology Ltd provided that a royalty was payable to Mr G Henderson for each of the first 100 wind turbines sold. The amount of the royalty is \$10,000 per turbine plus 10,000 share options at \$1.00 each. The total number of options is limited to 20% of the Windflow Technology Limited shares on issue.

Each option to purchase shares will lapse if not exercised within six months of issue. The option price is \$1.00, or if a market price for Windflow Technology Limited shares has been established at a level which raises concerns for the Directors that the option price is not fair and reasonable to existing shareholders, the option price will be determined as the average market price in the last month of the quarter less one third.

The Company on the 19th December 2002, entered into a share option plan for the benefit of all employees of the Company who have attained the age of 20 years and whom the Company has employed for at least one year. The Directors shall determine the selection of the participants and the number of shares comprised in options. Any offer of an option shall be at a price equal to the market price at the date of the resolution by the Directors to make an offer.

	9 Mths to 31 Mar 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
8. Retained Earnings Account				
Balance at beginning of period	(738,307)	(738,307)	-	-
Net deficit for the period	(810,942)	(810,942)	(738,307)	(738,307)
Balance at end of period	(1,549,249)	(1,548,354)	(738,307)	(738,307)
9. Current Liabilities				
Current liabilities consist of accounts payable and accruals, which are underpaid as at the period end.				
Trade Payables	46,681	46,681	25,106	25,106
Trade Payables – Asset Purchases	115,978	115,978	67,045	67,045
Employee Entitlements	10,744	10,744	7,850	7,850
	173,403	173,403	100,001	100,001
10. Current Assets				
<u>Term Deposits</u>				
Term deposits maturing within 6 months	344,931	344,931	1,100,610	1,100,610
Term deposits maturing within one year			500,000	500,000
	344,931	344,931	1,600,610	1,600,610
<u>Accounts Receivables</u>				
Trade receivables	14,468	14,468		
Accrued interest	913	913	11,350	11,350
	15,381	15,381	11,350	11,350
11. Fixed Assets				
Wind turbine & associated assets				
Site costs	66,958	66,958	10,123	10,123
Turbine	740,080	740,080	136,522	136,522
Tooling and equipment	210,973	210,973	136,360	136,360
Total Wind turbine and associated assets	1,018,011	1,018,011	283,005	283,005
Less accumulated depreciation	-	-	-	-
	1,018,011	1,018,011	283,005	283,005
Motor vehicle	10,408	10,408	10,408	10,408
Less accumulated depreciation	3,859	3,859	1,903	1,903
	6,819	6,819	8,505	8,505
Office equipment	97,450	87,465	95,011	85,026
Less accumulated depreciation	57,524	48,588	36,137	27,509
	39,926	38,877	58,874	57,517
Total fixed assets	1,064,756	1,063,707	350,384	349,027

No depreciation has been claimed on part constructed assets.

	9 Mths to 31 Mar 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
12. Intangible Assets				
Fair value of licences and wind rights	1,215,061	1,200,609	1,215,061	1,200,609
Less accumulated amortisation	247,564	247,564	135,007	135,007
	967,497	953,045	1,080,054	1,065,602

The ownership of licences and wind rights were transferred from the subsidiary company, Wind Torque Limited, on the 20th of January 2002 to Windflow Technology Ltd by way of an agreement between the Company, its subsidiary and Mr G. Henderson.

Intangibles are being amortised over 8 years from date of purchase.

13. Acquisition of a Subsidiary

On the 26 September 2001 the company acquired 100% of the shares of Wind Torque Ltd. Wind Torque Limited, at that time, was the beneficial owner of a patent licence and wind rights over a property in the North Island. Wind Torque Ltd has operated as a small consulting engineering firm since 1990.

	9 Mths to 31 Mar 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
<u>Consideration</u>				
800,406 shares in Windflow Technology Ltd	-	-	1,200,609	-
<u>Assets acquired</u>				
Licenses and wind rights	-	-	1,215,061	-
Fixed assets	-	-	1,357	-
	-	-	1,216,418	-
Less short term advance	-	-	15,809	-
			1,200,609	-

In the opinion of the Directors the consideration of \$1,200,609 was fair and reasonable to the company and to the existing shareholders, and a Directors' Certificate to the effect was filed pursuant to Section 47(2) of the Companies Act 1993. The terms and conditions relating to this determination of fair value, by the Directors, are listed under clauses 7 and 11, note 17.4 of the Prospectus, dated 9th July 2001.

The balance date of the subsidiary is the 30th June.

14. Commitments

Capital commitments as at balance date totalled \$26,850. These are for costs associated with the construction of the wind turbine. (30 June 2002 \$448,090)

15. Contingent Liabilities

As at balance date no contingent liabilities existed. (30 June 2002 Nil.)

16. Employee Entitlements

A liability for annual leave is accrued and recognised in the Statement of Financial Position.

17. Financial Instruments

Credit Risk

To the extent that the company has a receivable from another party, there is a credit risk in the event of non-performance by the counterparty. Financial instruments, which potentially subject the company to credit risk, principally consist of bank balances, receivables, and investments in term deposits. The company monitors the credit quality of its investments and manages its exposure to credit risk.

Concentrations of Credit Risk

The company does not have any significant concentrations of credit risk apart from its investments with a large and reputable bank.

Currency Risk

The company has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activity. Such activities are not of a material nature.

Interest Rate Risk

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

	9 Mths to 31 Mar 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
Investments in term deposits				
Six months or less	344,931	344,931	1,100,610	1,100,610
Six to twelve months	-	-	500,000	500,000
	344,931	344,931	1,600,610	1,600,610

Credit Facilities

The company has no credit facilities.

Fair values

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

18. Significant Events After Balance Date

There were no significant events after balance date.

19. Related Party Disclosures

All related party transactions are at normal market terms and conditions. No related party debts have been written off or forgiven.

The company paid project management fees to two Directors, Messrs B Leay (\$11,433) and K McConnell (\$59,141), and the fees were charged on normal terms. As at balance date \$6,663.41 was owing by the Company to Mr K McConnell.

The amount paid totalled for the nine-month period \$70,574. (30 June 2002 \$11,531).

20. Reconciliation of Reported Deficit with Cash Flows from Operating Activities

	9 Mths to 31 Mar 2003		9 Mths to 30 Jun 2002	
	Group	Parent	Group	Parent
	\$	\$	\$	\$
Net deficit	(810,942)	(810,047)	(738,307)	(738,307)
Less non-cash items and non-operating items:				
Amortisation of licenses and wind rights	112,557	112,557	135,007	135,007
Depreciation	23,073	22,765	29,412	29,412
Issues Costs of Equity	16,314	16,314	251,165	251,165
	151,764	151,456	415,584	415,584
Cash flow from operations before working capital charges	(659,178)	(658,591)	(322,723)	(322,723)
Movements in working capital:				
Increase (decrease) in accounts payable excluding asset purchases	24,161	24,470	30,846	30,846
Decrease (increase) in tax refund	28,064	28,064	(28,064)	(28,064)
Decrease (increase) in accounts receivable	(4,031)	(4,031)	(11,350)	(11,350)
Decrease (increase) in Prepayments	(7,223)	(7,223)	-	-
Decrease (increase) in GST receivable	(7,404)	(7,404)	(25,865)	(25,865)
	33,567	33,876	(34,433)	(34,433)
Net cash flows from operating activities	(625,611)	(624,715)	(357,156)	(357,156)

For the period ended 31 March 2003 the term deposit totals have been included within the net cash flow total. Last year only the trading bank account was included. The comparatives have been adjusted accordingly.

21. Prospective Financial Information

In July 2001 the Company issued a prospectus for the issue of shares. The following information is a comparison of the projected financial statements of Windflow Technology Limited, for the period ended 30 June 2002 and 30 June 2003, and the actual result of the nine month period ended 30 June 2002 and 31 March 2003.

	Projections 2003 30 June (12 Months) \$	Actual 2003 31 March (9 Months) \$	Projections 2002 30 June (12 Months) \$	Actual 2002 30 June (9 Months) \$
Operating revenue				
Consultancy fees received	100,000	15,524	-	4,725
Funding received	-	9,066	-	-
Interest received	37,000	47,029	111,000	93,799
Sale of installed turbines	3,876,000	-	-	-
Sale of Power	100,000	-	-	-
	<u>4,113,000</u>	<u>71,619</u>	<u>111,000</u>	<u>98,524</u>
Operating expenses				
Amortisation of licences and wind rights	-	112,557	-	135,007
Engineering costs	3,770,000	424,682	698,000	193,919
Research and development costs	-	17,819	-	17,640
Marketing costs	290,000	43,671	134,000	7,813
General and administration costs	599,000	260,759	464,000	453,040
Depreciation	375,000	23,073	7,000	29,412
	<u>5,034,000</u>	<u>882,561</u>	<u>1,303,000</u>	<u>836,831</u>
Net deficit	921,000	810,942	1,192,000	738,307
Statement of cash flows				
Opening balance	734,000	1,741,318	-	-
Net cash inflows (outflows) from operating activities	(734,000)	(625,517)	(976,000)	(357,156)
Net cash inflows (outflows) from investing activities	(3,959,000)	(691,517)	(1,204,000)	(296,479)
Net cash inflows (outflows) from financing activities	3,925,000	(35,178)	2,914,000	2,394,953
Net increase (decrease) in cash held	<u>(768,000)</u>	<u>(1,281,950)</u>	<u>734,000</u>	<u>1,741,318</u>
Closing balance	(34,000)	459,368	734,000	1,741,318

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

For 2003, the projections were for a twelve month period, the actual figures are for a nine-month period.

Note that for the previous year (30 June 2002) the projections were for a full twelve months. The enterprise commenced three months into that financial year. Therefore the actual figures are for a nine-month period ended 30 June 2002.

Actual investment in capital terms was lower than projected due to the timing of construction of the wind turbine.

The original subscribed funds for the prospectus were lower than projected.

Since the issue of the 2001 prospectus the Directors have determined that a policy of amortisation regarding the licences and wind rights be introduced.

The engineering costs variance is due to the timing of construction of the wind turbine and the capitalisation policy adopted by the Directors.

The marketing costs variance is due to a decision to defer significant marketing until nearer the time of completion of the wind turbine.

The projections, contained within the prospectus dated 9 July 2001, as amended on 10 August 2001, for the 2003 year, included the financial projections for the commencement of Stage 2 of the project. Stage 2 has not commenced and therefore there are very substantial differences between the actual financial statements for the nine-month period ended the 31 March 2003 and the projections for the 12 month period ended 30 June 2003.

Financial Projections

The following Projections must be read in association with the notes and assumptions on the following pages. These projections are based on one set of hypothetical but realistic assumptions and are not forecasts. There is insufficient trading history for the company to issue forecasts of financial performance.

STATEMENT OF PROSPECTIVE FINANCIAL PERFORMANCE (GROUP)

Financial year ending 30th June	F2004	F2005	F2006	F2007
	\$000	\$000	\$000	\$000
REVENUE:				
Sales to New Zealand Windfarms Limited	4,050	13,500	10,125	20,250
Sales to Others			10,125	20,250
Maintenance Fees Received		60	260	560
Sale of Power plus DG Benefits less Line Charges	104	104	104	104
	4,154	13,664	20,614	41,164
LESS COST OF GOODS SOLD:				
Less Cost of Manufacture	5,188	13,219	17,768	33,054
Less Cost of Royalties	60	200	300	600
Less Cost of Maintenance of Windmills Under Maintenance Contract	54	234	504	
Less Warranty & Performance Claims on Windmills Sold	203	675	1,013	2,025
Less Maintenance & Warranty on Owned Windmills	18	18	18	18
	5,468	14,166	19,333	36,201
GROSS MARGIN	(1,314)	(503)	1,281	4,963
PLUS OTHER INCOME				
Interest Earned	4	60	9	12
TOTAL MARGIN & INCOME	(1,310)	(442)	1,290	4,975
OPERATING COSTS:				
Administration	368	446	451	451
Amortisation	183	183	183	183
Depreciation	127	127	127	127
Marketing	154	320	400	400
Research & Development	526	426	426	426
TOTAL OPERATING COSTS	1,358	1,502	1,587	1,587
Capital Raising Costs	100			
TOTAL COSTS	1,458	1,502	1,587	1,587
NET PROFIT (LOSS) BEFORE TAX	(2,769)	(1,945)	(297)	3,387
Tax				
NET PROFIT (LOSS) AFTER TAX	(2,769)	(1,945)	(297)	3,387

STATEMENT OF PROSPECTIVE FINANCIAL POSITION (GROUP)

Financial year ending 30th June	OPENING	F2004	F2005	F2006	F2007
	\$000	\$000	\$000	\$000	\$000
Cash Balance	165	2,413	357	466	3,561
GST Owed	-	76	187	253	466
Retentions	-	405	1,350	2,025	4,050
Intangible Assets	915	982	799	616	433
Investments	-	200	200	200	200
Turbines at Cost	1,057	1,057	1,057	1,057	1,057
Other Fixed Assets at Cost	108	108	108	108	108
Less Accumulated Depreciation	62	189	317	444	571
Fixed Assets after Depreciation	1,103	976	848	721	594
TOTAL ASSETS	2,183	5,051	3,741	4,280	9,304
Current Liabilities	95	95	95	95	95
Provision for Warranty	-	203	837	1,674	3,310
TOTAL LIABILITIES	95	298	932	1,769	3,405
NET ASSETS	2,088	4,754	2,809	2,511	5,899
REPRESENTED BY:					
Capital Subscribed	3,981	9,415	9,415	9,415	9,415
Retained Earnings (Deficit)	(1,893)	(4,662)	(6,606)	(6,903)	(3,516)
TOTAL SHAREHOLDER FUNDS	2,088	4,754	2,809	2,512	5,899

STATEMENT OF PROSPECTIVE CASH FLOWS (GROUP)

Financial year ending 30th June	F2004	F2005	F2006	F2007
	\$000	\$000	\$000	\$000
OPENING CASH	165	2,413	357	466
Operating Activities:				
Net Profit Before Tax	(2,769)	(1,945)	(297)	3,387
Add Back Depreciation	127	127	127	127
Add Back Amortisation	183	183	183	183
Add Back Provision for Warranty	203	675	1,013	2,025
Add Back Capital Raising Costs etc.	100	-	-	-
Less Warranty Work Applied	-	(41)	(176)	(389)
Less Movement in Retentions	(405)	(945)	(675)	(2,025)
Less Movement in GST Owed	(76)	(111)	(66)	(213)
Total Operating Activities	(2,637)	(2,056)	109	3,095
Investing Activities:				
Intangible Assets Acquired	(250)	-	-	-
Investments Made	(200)	-	-	-
Total Investing Activities	(450)	-	-	-
Financing Activities:				
Capital Subscribed	5,434	-	-	-
Capital Raising Costs	(100)	-	-	-
Total Financing Activities	5,334	-	-	-
NET CASH FLOW	2,248	(2,056)	109	3,095

Notes To The Financial Projections

The projected financial information has been prepared on the basis of numerous assumptions, including those particular assumptions set out below. This information is provided to assist shareholders and investors in assessing the validity of the assumptions on which the projected financial information is based and the likelihood of the assumptions actually occurring. There is no guarantee that the assumptions will in fact occur exactly as set out below. Investors should be aware that events or outcomes which differ in size or timing from those assumed will occur and will have a positive or negative effect on the projected financial information. In assessing the reliability of prospective financial information, investors should have regard to all of the information in this prospectus. The underlying assumptions used in the projections were finalised in July 2003.

General assumptions

- Economic environment**
 There will be no material change in the existing social, economic or fiscal conditions the New Zealand or other markets Windflow may operate in.
- Legislative and regulatory environment**
 There will be no change in the legislative and regulatory enrolment which will have a material impact on the operations of Windflow.
- GST**
 The cash flow effect of GST has been included in the projections.
- Inflation**
 No allowance has been made from effects of inflation over the period of the projections.
- Exchange rates**
 All the projections have been calculated in New Zealand dollars and at the exchange rates ruling at the date the projections were completed.
- Interest income**
 For most of the projected period, Windflow expects to have bank deposits earning interest. The interest rate assumed for this purpose is 5%.
- Accounting policies**
 The projected financial information has been prepared on the basis of Standard Accounting Policies adopted by the Company for the preparation of the annual financial statements. There will be no changes in accounting policies. All policies have been applied consistently through out the projected period.

Specific assumptions

- **Operating revenue**

Sales revenue is recognised as a percentage of completion for all turbines sold under a binding contract. It is assumed that all sales and installations are completed within the same financial year.

In F2004, Windflow can either find third party customers or can get New Zealand Windfarms Ltd to the position, whereby they will agree to buy for \$675,000 each of six turbines. Furthermore Windflow can build these six turbines and have them installed so that the customer can settle the sale prior to 30 June 2004.

In F2005, the number of turbines assumed to be sold increases to 20 on the same basis; F2006 to 30; and F2007 to 60 and similarly each year thereafter.

The price of \$675,000 has been set at a level that Windflow believes is both competitive and will provide an adequate operating margin when manufacturing is fully ramped up. In F2004 and F2005, this selling price is not sufficient to give Windflow a positive margin.

- **Cost of manufacture**

The costs of manufacture for the projection periods are based on quoted prices for the various components in the required volumes. These quotes have been updated by the suppliers following the experiences gained in building the prototype Windflow 500 now operating at Gebbies Pass.

- **Promotion of New Zealand Windfarms Ltd**

The projections assume that Windflow will advance \$200,000 to New Zealand Windfarms Ltd during F2004 so that it can undertake an evaluation and capital raising.

A critical assumption in these projections is that New Zealand Windfarms Ltd can successfully undertake this promotion and can raise sufficient money within the necessary timeframes to complete the purchase of six turbines for installation before 30 June 2004.

Furthermore it is assumed that New Zealand Windfarms Limited is in a position to commit to the purchase of an additional 20 turbines and make a deposit payment in July 2004, an additional 15 turbines in July 2005 and a further 30 turbines in July 2006. Turbines assumed to be produced and not purchased by New Zealand Windfarms Ltd are assumed to be purchased by third parties.

It is further assumed that the advance made by Windflow is repaid by way of the issue of shares in the new company.

- **Warranty**

Five percent of the sale price of each turbine is provided as an expense by way of a provision for warranty in the year the turbine is installed and then one fifth of this amount is assumed to be spent on warranty claims in the following 5 years. This assumption is conservative compared to other manufacturers' experience but is considered prudent in the circumstances.

- **Other expenses**

These have been calculated on the basis of our recent local experience plus the international knowledge of Geoff Henderson in particular.

- **Success of rights issue**

The projections have been made assuming that the rights issue is fully subscribed.

- **Payment terms**

The payment terms for wind turbines have been assumed to be:

F2004

A 45% deposit on completion of sale formalities in March 2004, 45% upon completion of the 6 turbines in June 2004, and a 10% retention payable in June 2005.

Thereafter

1. A deposit on the completion of sale formalities of 10%.
2. Equal monthly instalments during the build period of an aggregate 80%
3. A 10% retention payable 12 months after completion.

The payment terms for the purchase of components for the wind turbines is based on an assumed payment profile.

- **Rights issue expenses**

Rights issue costs are estimated at \$100,000. Please refer to page 32.

- **Purchase of US patent**

It is assumed that the shareholders will approve the purchase of the US patent from Geoff Henderson for the torque-limiting gearbox. An upfront capital sum of \$250,000 has been provided for the purchase, 60% of which will be taken by way of shares at the rights issue price, and it is assumed that the transaction will be completed before June 2004.

Audit Report

**GOLDSMITH
FOX PKF**
CHARTERED ACCOUNTANTS

25 July 2003

The Directors
Windflow Technology Limited
PO Box 25-131
CHRISTCHURCH

Dear Directors

This report is issued in respect of the public offer by Windflow Technology Limited ("the Company") of 2,746,445 ordinary shares in the Company as set out in the prospectus to be registered on 28 July 2003.

We have audited the financial statements of the Company set out at pages 17 to 26. The financial statements provide information about the past financial performance of the Company for the nine months ended 31 March 2003 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 20 and 21.

We report on the prospective financial information of the Company set out on pages 27 to 29. The Directors of the Company for the purpose of the Prospectus have prepared the prospective financial information. The prospective financial information has been prepared on the basis of the assumptions and accounting policies set out on pages 28 and 29 and 20 and 21 respectively.

Directors' Responsibilities

The Directors are responsible for the preparation of:

- (a) Financial statements which comply with generally accepted accounting practice; and give a true and fair view of the state of affairs of the Company and Group as at 31 March 2003 and the results and cash flows for the nine months ended on that date;
- (b) The prospective financial information of the Company and Group for the years ending 30 June 2004, 2005, 2006 and 2007, including the assumptions on which the prospective financial information is based.

Auditor's Responsibilities

It is our responsibility to:

- (a) Express an independent opinion on the financial statements as at 31 March 2003 and for the nine months ended on that date presented by the Directors, and report our opinion to you,
- (b) Report, in accordance with clause 42(2) of the First Schedule to the Securities Regulations 1983, on the prospective financial information for the years ending 30 June 2004, 2005, 2006 and 2007 presented by the Directors.

This report has been prepared for inclusion in the Prospectus for the purpose of meeting the requirements of clause 42 of the First Schedule to the Securities Regulations 1983. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the financial statements, the summary of financial statements or the prospective financial information for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not mentioned in this report.

236 Armagh Street, P O Box 13-141, Christchurch, New Zealand, Telephone (03) 366-6706, Fax (03) 366-0265

Goldsmith Fox PKF is an Independent Member of PKF International

PKF
worldwide

Windflow Technology Limited

Basis of Opinion on the Financial Statements, the Summary of Financial Statements and the Prospective Financial Information

Our audit of financial statements for the nine months ended 31 March 2003 included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also included assessing:

- (a) The significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) Whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

In addition we have undertaken procedures to provide reasonable assurance that the prospective financial information for the years ending 30 June 2004, 2005, 2006 and 2007, so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the Directors as set out on pages 28 and 29 and is presented on a basis consistent with the accounting policies normally adopted by the Company. The assumptions relate to future events. We do not express an opinion on these assumptions.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company or its subsidiaries.

Unqualified Opinion on the Financial Statements, the Summary of Financial Statements and the Prospective Financial Information

We have obtained all the information and explanations we have required.

In our opinion:

- (a) Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) The Company and Group financial statements on pages 17 to 26;
 - (i) Comply with generally accepted accounting practice in New Zealand; and
 - (ii) Give a true and fair view of the state of affairs of the Company and Group as at 31 March 2003 and of the results and cash flows for the nine months ended on that date;
- (c) The prospective financial information set out on pages 27 to 29, so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the Directors as set out on pages 28 and 29 of this prospectus and is presented on a basis consistent with the accounting policies normally adopted by the Company.

Actual results are likely to be different from the projections since anticipated events frequently do not occur as expected and the variations could be material. Accordingly we express no opinion as to whether the financial projections will be achieved.

We completed our work for the purposes of this report on 25 July 2003 and our unqualified opinion is expressed as at that date.

Yours faithfully

Goldsmith Fox PKF

GOLDSMITH FOX PKF

Statutory Information

Main Terms Of Offer

1. Name of Issuer

The name of the issuer is Windflow Technology Limited (Windflow) whose registered office is:

C/- Mortlocks
Lawyers
Level 7, BNZ Building,
137 Armagh Street,
Christchurch

2. Details of Securities Being Offered

The securities being offered are new fully paid ordinary shares which after issue will rank pari passu with all existing ordinary shares.

The number of ordinary shares being issued is a maximum of 2,746,445 shares.

The issue price of these shares is \$2.00 per share.

Prospects And Forecasts

3. Trading Prospects

Pages 12 and 13 and pages 27 to 29 of this Short Form Prospectus contain a statement as to the trading prospects of Windflow (including any relevant material information which could affect such prospects).

4. Risks

Pages 15 and 16 of this Short Form Prospectus and page 4 of the Investment Statement contain a statement that sets out special trade factors and risks which could affect the trading prospects of the company.

The funds raised will be used for the projects set out on page 14. The expected financial benefits of those projects will be to establish Windflow as a proven supplier of wind turbines suitable for the wind conditions experienced in New Zealand.

Preliminary And Issue Expenses

5. Amount of Issue Expenses

The estimated amount of issue expenses either incurred or projected to be incurred relating to the preparation and marketing of this share offer is \$100,000.

6. Commission Payable

No commission is payable in relation to this Short Form Prospectus.

Brokerage at the rate of 1.50% of the issue price will be paid to the NZX firms whose stamps appear on any validly completed applications received by the company and resulting in the allotment of shares.

Other Terms Of Offer

7. All the terms of this offer are set out in the other parts of this offer document.

Financial Statements

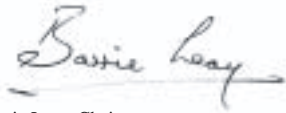
8. The latest audited Full Accounts for Windflow is for the period to 30th June 2002. These covered a nine month period, being the inaugural one for the Company.

Interim Accounts have been prepared and audited for the Nine Months to 31st March 2003.

Copies of these financial statements have been included in this Short Form Prospectus for the purpose of registration as required by regulation 7(1)(c) of the Securities Regulations 1983. These statements and accompanying notes appear on pages 15 to 24 of this Offer Document.

In accordance with Regulation 4(2)(f) of the Securities Regulations 1983 the Directors state that after due enquiry by them in relation to the period between 31st March 2003 and 25th July 2003 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 group to pay its liabilities due within the next 12 months.

This Prospectus has been signed by or on behalf of all the Directors of Windflow Technology Ltd.



Barrie Leay, Chairman



Geoff Henderson



Hough Kelly



Vicki Buck



Keith McConnell

Directory

Directors

Barrie Leay (Chairman)
Vicki Buck (Deputy Chairman)
Heugh Kelly
Keith McConnell (Executive Director)
Geoff Henderson (Chief Executive Officer)

Staff

Mechanical Engineer	Warwick Payne
Design Engineer	Marina Roman
Electrical Engineer	Wernher Roding
Procurement Manager	Alan White

Solicitors

Guy Mortlock
Mortlocks
137 Armagh St
Christchurch

Accountants

Mike Keyse
HFK Ltd
12 Main North Road
Christchurch

Auditors

Goldsmith Fox PKF
236 Armagh St
Christchurch

Bankers

National Bank of NZ Ltd
164 Hereford St
Christchurch

Share Registrar

BK Registries Limited
138 Tancred Street
P O Box 384
Ashburton

Investment Bankers

Kan and Company Ltd
106 Panorama Rd
PO Box 33-200
Sumner Christchurch

Insurance Brokers

Heath Lambert New Zealand Limited
79-83 Hereford St
Christchurch

Principal Suppliers

Blades	Wind Blades Ltd of Auckland
Gearbox	A. H. Gears Ltd of Auckland
Hub	Farra Dunedin Engineering Ltd of Dunedin
Electrical Control	Bremca Industries Ltd of Christchurch
Generator	Newage International Ltd of UK (Sydney office)
Pallet	Lyttelton Engineering Ltd of Christchurch
Tower/Foundations	Smith Crane and Construction Ltd of Christchurch
Planning Services	Connell Wagner Ltd (Christchurch Office)

Investment Statement

Introduction

This is a Short Form Prospectus and Investment Statement prepared in accordance with the Securities Act 1978 on the basis of regulation 4 (1) of the Securities Regulations (1983) as at 28th July 2003.

Important Information

If you are in any doubt as to how to deal with this document, please contact a NZX sharebroker or your other financial or legal adviser immediately.

If you have sold your shares in Windflow, please send this document and enclosures to the NZX Firm through whom you made the sale requesting that they be forwarded to the new shareholder.

No person named in this Offer Document, nor any other person, guarantees the shares to be issued pursuant to this Offer.

Neither Windflow nor any of its officers, employees or advisers takes responsibility for the taxation liability of a shareholder in relation to this Offer. Shareholders should seek specific taxation advice.

A copy of this Offer Document, duly signed and having attached thereto copies of the documents required by the Securities Act 1978, has been delivered to the Registrar of Companies for registration.

Statements in this Short Form Prospectus which are not specifically attributed to other parties represent the view of Windflow and its Directors.

(The information in this section is required under the Securities Act 1978)

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:

	Page
What sort of investment is this?	2
Who is involved in providing it for me?	2
How much do I pay?	2 - 3
What are the charges?	3
What returns will I get?	3
What are my risks?	4
Can the investment be altered?	4
How do I cash in my investment?	4
Who do I contact with enquiries about my investment?	4
Is there anyone to whom I can complain if I have problems with the investment?	5
What other information can I obtain about this investment?	5

In addition to the information in this document, important information can be found in the current registered Prospectus for the investment. A copy of that Prospectus has been included within this document.

Choosing An Investment Adviser

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

- Whether the adviser gives advice only about particular types of investments; and
- Whether the advice is limited to the investments offered by 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.

What Sort Of Investment Is This?

Windflow, a company incorporated under the Companies Act 1993, is offering to its shareholders new fully paid Ordinary Shares in the capital of Windflow at an issue price of \$2.00 per share.

This renounceable offer is being made to existing shareholders, who are entitled to subscribe for one new share for every one share held. Any ordinary shares purchased after Friday 25th July, Record Date will not qualify the holders for any right to participate in the offer contained in this Offer Document.

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 surplus assets of Windflow 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.

Who is involved in providing it for me?

Windflow Technology Limited is the offeror and issuer of the ordinary shares and its registered office is:

C/- Mortlocks
Lawyers
Level 7,
BNZ Building,
137 Armagh Street,
Christchurch

The principal activities of the issuer are the design, manufacturing and sale of wind turbines. Windflow started trading in October 2001 and has just commissioned the prototype wind turbine. As at the date of this offer Windflow has not sold any wind turbines.

How Much Do I Pay?

Investors pay \$2.00 per share applied for with the following limits.

There is no minimum subscription for the additional shares but the Directors reserve the right to refuse to register a transfer of less than 2,000 ordinary shares as a means of minimising the costs of administration. If you wish to hold a combined total of existing and new shares that is less than 1,000 shares we suggest that you contact the company to discuss the situation.

The maximum subscription is that 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 Short Form Prospectus at the rate of one right for each existing Windflow share held at 5pm on Friday, 25th July 2003 plus or minus any rights purchased or sold.

All applications must be made on the Application Form accompanying this Short Form Prospectus and must be accompanied by a cheque made out to "Windflow Technology Limited" for \$2.00 per share applied for and 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 29th August 2003.

By submitting an Application Form, an applicant irrevocably agrees to be bound by the terms and conditions in this Investment Statement (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.

If an investor fails to pay the appropriate amount before 5.00pm on Friday 29th August 2003 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 sell these surplus rights through any member NZX firm.

What Are The Charges?

Investors are not required to pay any charges to Windflow or any other party in relation to their application for shares. The only payment required is the \$2 per share issue price.

If you wish to consider selling some (or all of) your rights – or wish to buy some more – you should contact a New Zealand Exchange (NZX) firm. They are listed under "Sharebrokers" in your local Yellow Pages.

They will advise you of the price(s) at which buyers are prepared to buy your rights, assuming there are buyers at the time of your inquiry.

They will also advise the charges or brokerage payable by you to that firm to buy or sell the 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 1.5% of the subscribed amount or a minimum of \$60. Windflow will pay this brokerage to the firm.

Windflow will be meeting all the expenses of the Offer.

What Returns Will I Get?

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 start up company and is developing new technology into a developing 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. They will pay dividends when profitability and cash reserves allow this to occur on a prudent basis."

No dividends are promised by Windflow or any other party. The date of the first dividend and the frequency of the subsequent dividends are unknown. Windflow is the party legally liable to pay the returns.

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 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 USM, many of which are outside the control of Windflow. These factors include investor sentiment, stock market volatility, interest rate changes, economic activity levels and political uncertainty.

In fact, 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.

Rights

Holders of ordinary shares at the Record Date 5pm Friday 25th July 2003 will be offered rights at no cost. These rights will be quoted on the USM and may be traded during the period from Monday 28th July 2003 until Wednesday 27th August 2003.

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) Do nothing (which is not recommended).

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

What Are My Risks?

The risks inherent in this investment are significant and need to be carefully evaluated by prospective investors. Risk factors may reduce shareholders' returns or affect shareholders' ability to recover money paid.

This Short Form Prospectus and Investment Statement contains forward-looking statements and future projections that involve risks and uncertainties. Actual results could be materially different from those discussed in the forward-looking statements and financial projections as a result of certain factors, including those set forth below and elsewhere in this Offer Document. The following risk factors should be carefully considered in addition to the other information in this Short Form Prospectus before subscribing for the shares.

Investment And Insolvency Risk

An insolvency risk arises if Windflow 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 only ever be paid if the Directors of Windflow 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 Windflow becomes insolvent.

Shareholders should be aware that in the event of Windflow 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 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.

Specific risks

Specific risks factors are detailed on pages 15 and 16 of the Offer Document.

Can The Investment Be Altered?

Any changes to this Short Form Prospectus and Investment Statement 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 the Constitution can only be changed by a Special Resolution of shareholders.

Your investment can be altered through dilution (in the event of subsequent issues which you do not participate in) or through concentration (in the event of a share buyback and cancellation by the company).

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 sell his or her interest to another party. This can be done directly or via the USM.

The securities (both new and existing) have been accepted for quotation by the New Zealand Exchange on its USM and will be quoted upon completion of allotment procedures. However, the New Zealand Exchange accepts no responsibility for any statement in this prospectus.

Windflow is registered on the USM and the company's shares have been trading on this market since 12th May 2003. 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.

Who Do I Contact With Enquiries About My Investment?

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

Geoff Henderson,
Level 2, Argosy House,
87 Victoria St,
Christchurch
PO Box 25-131, Christchurch
Phone +64 3 365-8960
Fax + 64 3 365-1402
Email: info@windflow.co.nz

Is There Anyone To Whom I Can Complain If I Have Problems With This Investment?

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

Geoff Henderson,
Level 2, Argosy House,
87 Victoria St,
Christchurch
PO Box 25-131, Christchurch
Phone +64 3 365-8960
Fax + 64 3 365-1402
Email: info@windflow.co.nz

Additionally complaints may be made to the Securities Commission, PO Box 1179, Wellington.

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

What Other Information Can I Obtain About This Investment?

This document includes the prospectus for the rights issue and the financial statements for the issuer and therefore other information about the issuer and the securities are contained in the other parts of this document.

Investors may like to visit the Windflow 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.

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

- Constitution of the Company
- Annual Report to 30th June 2002
- Shareholder Newsletters Numbers 1 to 6
- Brochure on the Windflow 500

These can be obtained by contacting the office as follows:

Geoff Henderson,
Level 2, Argosy House,
87 Victoria St,
Christchurch
PO Box 25-131, 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.

Shareholders will receive each year an Annual Report as is required by the Companies Act and Constitution.

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 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

Geoff Henderson,
Level 2, Argosy House,
87 Victoria St,
Christchurch
PO Box 25-131, Christchurch
Phone +64 3 365-8960
Fax + 64 3 365-1402
Email: info@windflow.co.nz

No charge is payable for any information supplied.

How to Invest

You may take the following action:

- (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.

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 \$2.00 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

or lodge your form and cheque with any NZX firm in sufficient time to enable the forms to be forwarded to the Share Registrar by 5.00 pm Friday 29th August 2003. Post dated cheques 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 on Wednesday 27th August 2003.
- 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 forwarded to the Share Registrar by 5.00 pm Friday 29th August 2003.

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 forwarded to the Share Registrar by 5.00 pm Friday 29th August 2003.
- 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 on Wednesday Friday 27th August 2003.
- 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 29th August 2003.
- 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. Payment instructions

- 5.1 The ordinary shares are payable in full by payment of \$2.00 per ordinary share on acceptance. Payment must be made in New Zealand dollars.
- 5.2 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'.

Please refer also to the section headed "Buying and Selling Rights" on page 6 of this Short Form Prospectus.

