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CORPORATE DIRECTORY

Registered Office and Administration Office

Queensland Paulownia Forests Limited
ACN 071 625 477

Level 16, 50 Cavill Avenue,
Surfers Paradise. Qld 4217

Telephone: (07) 5579 1700

Free Call: 1800 350 071

Facsimile: (07) 5531 6185

E-mail: admin@qpfl.com.au

Website: www.qpfl.com.au

Auditors

KPMG

Level 11, Corporate Centre One,
Cnr Bundall Road & Slatyer Avenue, Bundall. Qld 4217

Telephone: (07) 5577 7555

Facsimile : (07) 5555 7444

Solicitors

McMahon Clarke Legal

62 Charlotte Street, Brisbane. Qld 4000

Telephone: (07) 3831 8999

Facsimile: (07) 3831 1121

Share Registry

Link Market Services Limited

Level 22 HSBC Building
300 Queen Street, Brisbane. Qld 4000

Telephone: (07) 3228 4219

Facsimile: (07) 3228 4999

Company Secretaries

Elizabeth Hutchinson

Leon Lewandowski



2005 HIGHLIGHTS

Net Assets increased to \$16.63m

Cash increase of 184%

Shareholders Funds increased by 28%

Dividends up 100%

Retail Sales increased by 200%

Convertible Notes Offer raised \$9m - fully subscribed

Forbes Infrastructure development underway

Kogan Timber Mill purchase confirmed

Increasing acceptance and distribution of QPFL investment products through Financial Planning and Accountant networks

Marketing and Sales strengthened to ensure future growth



CHAIRMAN'S MESSAGE

It has been another successful year for your company, with considerable progress being made as QPFL consolidates its position and continues to move towards the ultimate goal of becoming a fully integrated forestry organisation.

Growing awareness of QPFL and the developments the company is making on behalf of the Paulownia industry in Australia have contributed positively to this year's pleasing result. The financial operating performance improved significantly thanks to the untiring efforts of our dedicated and professional staff and the increasing support of the network of financial planners and accountants who recognise the value of a diversified forestry asset class as a key component of a balanced portfolio and recommend our highly attractive investment products to their clients. It is particularly pleasing that the company only required \$2.784m of project underwriting this year.

Financial performance can be summarised as follows:

Compared to June 2004

- Net assets increased from \$12.98 million to \$16.63 million.
- Cash on hand at balance date increased from \$2.848 million to \$8.113 million,
- Dividends increased by 100% to 8 cents fully franked per share

Cash on deposit remains around \$8 million at the end of October, even after the cost of substantial development work on the Forbes Plantation, purchasing the Kogan Mill and paying the 8 cent dividend.

This strong performance confirms that the business model the company is pursuing is the correct one, given the current economic environment.

In last year's report I indicated that the company was preparing for a listing on the London Stock Exchange Alternative

Investment Market (AIM), however after careful consideration of all the costs involved, not only in the listing itself, but also the cost of maintaining investor awareness of the company's activities on an ongoing basis to drive demand for the shares and therefore the share price, it has been decided to pursue a domestic transaction instead. Consistent with the exit strategy stated in the Share Prospectus in 2001, your company has engaged Hindal Securities Pty Ltd to advise on the best options available to maximise shareholder value.

In preparation for this process, your directors have reviewed the company's own plantation assets, and due to the continuing effects of the drought, have written down this asset by approximately \$3million.

Further, a fundamental error in the recognition of revenue and expenses brought to account at 30 June 2004 in relation to a contract entered into with a third party, was reversed in December 2004. This transaction has now been brought to account in full for June 2005 results, the net affect being neutral on the after tax profit for year ending 30 June 2005.

This year the Convertible Note issue was fully subscribed and the company welcomes 476 Convertible Note holders who subscribed for \$9million worth of securities. These note holders will be in a position to become ordinary shareholders, should certain events occur.

One of the objectives of your directors has been to continually review the board's membership to ensure it covers the required mix of skills needed to develop the company in the future. During the year, your directors identified a need to improve on its corporate governance and risk management capabilities. To this end your directors have appointed Dr Stephen van der Mye to the Board as a non-executive director, Deputy Chairman and Chairman of the Audit and Remuneration Committees.

Stephen has had significant experience at both the executive and non-executive director level over the last 15 years covering a wide range of industries including agribusiness; banking and financial services; infrastructure and utilities; mining and mineral processing; and retail sales. Stephen is currently Chairman of the Bank of Cyprus Group in Australia.

Stephen also has a strong background in accounting and finance and is currently Chairman of the Audit Committee of Swinburne University of Technology and has been previously the independent Chairman of the Audit and Risk Management Committees of both the Carbon Steel and Stainless Steel Customer Sector Groups of BNP Billiton Limited.

Your directors look forward to the positive contribution Stephen will make to QPFL in these important areas over the coming years.

The Directors see many exciting opportunities for the company as it continues to develop and expand its operations, and, under the capable leadership of CEO Ian Sandeman, the directors are confident that the company is well placed to take advantage of any opportunities that may arise in the future.

On behalf of the Board, I would like to thank every employee for their contribution over the past year – the entire company remains focused on growing the business and delivering maximum returns to both our shareholders and our growers. We look to the future with quiet confidence.

David M Gold
Chairman

27 October 2005



CEO OPERATIONAL REVIEW

The past year has seen QPFL offer for the first time three managed investment products, acquire a timber mill at Kogan and achieve a significant increase in retail sales of managed investment products. The company has made further progress towards the goal of making QPFL a vertically integrated forestry company producing high quality, high end value Paulownia products for the Australian and export markets.

Financial Performance

The Managed Investment Scheme (MIS) industry has seen considerable growth in recent times with Agribusiness sales topping \$1 billion dollars in 2005, with forestry related projects being a major driver providing over 70% of those sales. QPFL has been able to successfully capitalise on this growth over the past year.

The financial performance of the company has been particularly pleasing with retail sales increasing by \$10 million, up 200% on the previous year.

Timber Mill

The recent purchase of an operational timber mill at Kogan in South East Queensland is a further example of the company's commitment to its growers and investors. The mill is currently processing Cypress logs, and, after a planned \$8m expansion to upgrade milling technology and the addition of a new downstream value adding timber processing facility, will be capable of processing all Paulownia timber from our six plantations in Queensland.

Infrastructural Development

The Forbes plantation has undergone extensive capital works investment to ensure adequate irrigation infrastructure is available, and a major planting programme of over a million seedlings, along with further infrastructure developments is now well under way.

The company will continue to ensure that its quality assurance strategies and focus are clearly structured to ensure the highest value return to its shareholders and growers.

BIS Shrapnel Report

Paulownia is now being recognised as a unique premium plantation timber with characteristics that make it ideal for use in many speciality, high value applications across a range of industries. The company has recently commissioned BIS Shrapnel Pty Ltd, Australia's leading global forecasting and research agency, to undertake a review of the wider timber industry and more specifically the market potential for Paulownia. The report, which was recently released, confirmed the considerable market potential for Paulownia based products, particularly within the lucrative moulding, door core and marine fit out industries. This is extremely positive for the development of the company and provides its investors and growers with additional confidence for the future.

Expanded QPFL Team

The QPFL team has been further strengthened this year with the addition of experienced, professional support staff within the Sales and Marketing areas and this will ensure that the company continues its current growth and achieves the ambitious objectives in the year ahead.

Plans and Targets for the Current Year

QPFL made significant progress last year across all aspects of its business including offering three managed investment products, the development of significant plantation infrastructure at Forbes and increased support for the company's products from financial planning and accountant networks. This coming financial year QPFL plans to:

- Conduct the first commercial harvest for its growers and mill their logs at the QPFL owned timber mill at Kogan
- Acquire additional properties and further expand the infrastructural capabilities of the Forbes plantations
- Continue to offer enhanced financial products with competitive finance
- Develop market opportunities for Paulownia products identified in the BIS Shrapnel report

As the company looks forward to another year of good results and significant achievements, it also recognises and appreciates your ongoing support for QPFL.

Ian Sandeman
Chief Executive Officer

27 October 2005

FINANCIAL REPORT FOR YEAR ENDED 30 JUNE 2005

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DIRECTORS' REPORT

Your directors present the following report for the financial year ended 30th June 2005.

Directors

The names of directors in office at any time during or since the end of the year are:

Mr David M Gold
Mrs Elizabeth Hutchinson
Mr Graham J Fayle
Mr Leon Lewandowski

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

The principal activities of the company and consolidated entity during the financial year, have been to promote managed investments in Forestry, acting as a Responsible Entity and the management of Paulownia tree plantations in Australia.

There has been no significant change in the nature of these activities during the year.

Results of operations

The consolidated net profit of the consolidated entity for the financial year after income tax expense was \$3,716,233.

The above result included a fundamental error of \$6,071,150 relating to the recording of sales and expenses in the year ended 30 June 2004, which reduced the profit after income tax for the year ended 30 June 2005.

Review of operations

The operations of the company and consolidated entity during the year, was to manage Paulownia tree plantations, promote managed investments and act as a Responsible Entity.

During the year the company incorporated three wholly owned subsidiaries as disclosed in note 27.

Significant changes in the state of affairs

There has been no significant change in the state of affairs of the company, or consolidated entity during the financial year.

Significant after balance date events

Since 30 June 2005, QPFL Milling Pty Ltd has acquired the land and buildings of a timber mill at Kogan. QPFL Contract Services Pty Ltd

acquired, on a going concern, the business of Kogan Timbers located at the Kogan property purchased by QPFL Milling Pty Ltd. The contract price totalling \$1.2 million was paid out of the cash reserves of Queensland Paulownia Forests Ltd.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Likely future developments and expected results

In the opinion of directors to include future expected results would prejudice the interest of Queensland Paulownia Forests Ltd.

Performance in relation to environmental regulation

In the opinion of the directors no matter has arisen during the financial year that would lead to a contravention of current environmental legislation.

Dividends

The following dividends have been provided for during the year:

Interim ordinary dividend of 8 cents (2004- 4 cents) per ordinary share declared in June 2005 and paid in July 2005.

Options

Options to purchase shares in the company were granted to Atlantic Law in June 2004. The options are for 1% of the shares in Queensland Paulownia Forests Ltd based on the number of shares on issue at the date of admission to AIM (Alternative Investment Market) of the London Stock Exchange.

The exercise price is the admission price of shares on admission to AIM and period of the option is three years from date of admission to AIM.

The cost of the option is nil and was negotiated as part of agreed fees to prepare an Admission document for Queensland Paulownia Forests Ltd to enable the company to be admitted on AIM.

Information on Directors

David M Gold

Experience

Interest in Shares

Special Responsibilities

- Chairman (Executive).
- Board member since April 2001. Previously Deputy Chairman of substantial New Zealand public companies and has extensive experience in business management, corporate finance and restructuring.
- 13,250,000 Ordinary Shares , 50 woodlots in Project 6 and 300 Capital Forestry Units - Project 8.
- Responsible for strategic planning, sales and marketing.

Elizabeth Hutchinson

Qualifications

Experience

Interest in Shares

Special Responsibilities

- Director of Administration and Compliance (Executive).
- Associate of the Institute of Chartered Accountants in New Zealand.
- Board member since September 2001. Has extensive experience in financial management and has worked as Financial Controller of listed public companies in New Zealand and Australia since 1984.
- 750,000 Ordinary Shares, 10 woodlots in Project 6 and 100 Capital Forestry Units- Project 8.
- Responsibilities include Finance, Taxation, Compliance, Risk and Insurance Management and Company Secretarial. Mrs Hutchinson is a Member of the Audit Committee.

Graham J Fayle

Qualifications

Experience

Interest in Shares and Woodlots

Special Responsibilities

- Director of Farming and Plantation Management (Executive).
- Bachelor of Arts and Post Graduate Diploma in Farm Management.
- Board member since September 2001. Acted as Plantation Operations manager since 1998. Has had 30 years experience in agriculture in Australia and overseas and served on Boards of Agricultural businesses.
- Nil.
- Responsible for the efficient operation of the Company's Plantations and is the company's silvicultural Quality Assurance consultant.

Leon Lewandowski

Qualifications

Experience

Interest in Shares and Woodlots

Special Responsibilities

- Non Executive Director.
- Associate of the Australian Society of Certified Practising Accountants and Associate of the Institute of Corporate Managers, Chartered Secretaries and Administrators.
- Board member since August 1999. Brings to the company, corporate and management expertise and has extensive knowledge of Queensland industry. Has previously been a Director of three other managed investment projects.
- 3,000 Ordinary Shares.
- Mr Lewandowski is a Member of the Compliance Committee and Audit Committee.

REMUNERATION REPORT

Specified Directors Remuneration - 2005

Non executive directors remuneration comprises fixed fees, determined having regard to the level of responsibility including committee memberships, industry practice and the need to obtain appropriately qualified independent persons. Fees do not contain any non-monetary benefits.

Remuneration of executive directors is determined and approved by the board. In this respect, consideration is given to normal commercial rate of remuneration for similar levels of responsibility. There are no bonuses provided to executive directors however the salary package is determined with reference to past performance.

Name	David Gold	Elizabeth Hutchinson	Graham Fayle	Leon Lewandowski
Position	Chairman/ Managing Director	Finance & Compliance Director	Operations Director	Non-executive Director
Primary benefit (salaries and fees)	120,000	148,942	172,826	101,653
Non monetary benefits	19,197	21,215	2,067	-
Post employment benefits (superannuation)	10,800	-	-	-
TOTAL	149,997	170,157	174,893	101,653
AGGREGATE SPECIFIED DIRECTORS TOTAL 2005				\$ 596,700

Specified Directors Remuneration - 2004

Name	David Gold	Elizabeth Hutchinson	Graham Fayle	Leon Lewandowski	Blake Ammit
Position	CEO/Managing Director	Finance & Compliance Director	Operations Director	Non-executive Director	Non-executive Director
Primary benefit (salaries and fees)	120,000	122,230	133,830	81,230	5,500
Non monetary benefits	24,277	7,951	14,859	-	-
Post employment benefits (superannuation)	7,200	-	-	-	-
TOTAL	151,477	130,181	148,689	81,230	5,500
AGGREGATE SPECIFIED DIRECTORS TOTAL 2004					\$ 517,077

Specified Executives Remuneration - 2005

Remuneration of the specified executives is determined by the board. In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility. No options have been given during the period.

Name	Ian Sandeman Commenced 10/01/05
Position	Chief Executive Officer
Primary benefit (salaries and fees)	98,031
Non monetary benefits	20,653
Post employment benefits (superannuation)	8,823
TOTAL	127,507
There were no specified executives in 2004.	

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedure adopted by the company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement FI Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included in the directors' report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

Auditors' Remuneration	2005 \$	2004 \$
Audit Services:		
Audit and review of the financial reports	57,690	25,000
Other Services:		
Taxation Compliance Services	121,034	74,761
	178,724	99,761

Indemnification of officers and auditors

The company has obtained insurance in respect of all directors against all liabilities to other persons that may arise from their positions as directors, except where the liability arises out of conduct involving a lack of good faith. Premiums paid for indemnification \$302,400 (2004: \$175,000).

The company has not, during or since the financial year in respect of any auditor of the company indemnified or made any relevant agreement for indemnification.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

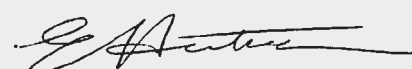
The lead auditor's independence declaration is set out on page 10 and forms part of the directors' report for the year ended 30 June 2005.

Meetings of Directors

During the financial year, 10 meetings of directors (including committees) were held. Attendances were:

Directors Meetings		
	Number eligible to attend	Number Attended
David M Gold	7	7
Elizabeth Hutchinson	7	7
Graham J Fayle	7	6
Leon Lewandowski	7	7
Audit Committee		
	Number eligible to attend	Number Attended
Elizabeth Hutchinson	3	3
Leon Lewandowski	3	3

Signed in accordance with a resolution of the Directors.



Elizabeth Hutchinson
Director

Dated at Surfers Paradise this 30th day of September, 2005.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of Queensland Paulownia Forests Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG



Paul Steer
Partner

Place: Gold Coast

Date: 30th September 2005

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30TH JUNE, 2005

		CONSOLIDATED		COMPANY	
	Note	2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from ordinary activities	2	31,531,775	18,326,715	31,449,460	18,326,715
Net decrement / (increment) in market value of Paulownia trees		3,067,769	(153,008)	3,067,769	(153,008)
Changes in inventories		77,648	(329,551)	77,648	(329,551)
Raw materials and consumables used		858,881	587,552	858,881	587,552
Employee expenses		2,141,845	1,688,625	2,141,845	1,688,625
Depreciation and amortisation expenses		683,985	534,694	683,985	534,694
Carrying amount of assets sold		7,300	31,893	7,300	31,893
Research and development expense		313,429	479,791	313,429	479,791
Borrowing Costs		1,285,719	245,555	1,285,719	245,555
Other expenses from ordinary activities	3	9,176,335	5,393,152	9,353,523	5,393,052
Profit from ordinary activities before related income tax expense		13,918,864	9,848,012	13,659,361	9,848,112
Income tax expense relating to ordinary activities	5	(4,131,481)	(2,873,128)	(4,053,661)	(2,873,158)
Profit from ordinary activities after related income tax expense	4	9,787,383	6,974,884	9,605,700	6,974,954
Correction of fundamental error	35	(6,071,150)	-	(6,071,150)	-
Profit after correction of fundamental error		3,716,233	6,974,884	3,534,550	6,974,954
Basic earnings per share	cents	14.97	32.71	14.24	32.71
Diluted earnings per share	cents	8.36	20.71	7.95	20.71

The above Statement of Financial Performance is to be read in conjunction with the attached notes

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE, 2005

		CONSOLIDATED		COMPANY	
	Note	2005	2004	2005	2004
		\$	\$	\$	\$
CURRENT ASSETS					
Cash		8,113,021	2,848,167	8,112,253	2,833,340
Receivables	6	17,300,243	10,413,901	17,298,556	10,413,901
Inventories	7	158,468	80,820	158,468	80,820
Other Financial Assets	10	783,006	-	783,006	-
Other	8	1,181,837	795,233	1,081,837	795,233
Total Current Assets		27,536,575	14,138,121	27,434,120	14,123,294
NON-CURRENT ASSETS					
Receivables	6	4,116,877	5,457,805	5,060,898	8,197,925
Self Generating and Regenerating Assets	9	1,665,921	4,733,690	1,665,921	4,733,690
Property, Plant and Equipment	11	7,511,428	5,147,219	5,138,344	2,443,267
Other Financial Assets	10	-	-	1,000,300	100
Intangible Assets		-	175,866	-	175,866
Other	8	-	641,667	-	641,667
Total Non-Current Assets		13,294,226	16,156,247	12,865,463	16,192,515
TOTAL ASSETS		40,830,801	30,294,368	40,299,583	30,315,809
CURRENT LIABILITIES					
Payables	12	5,164,433	2,112,734	4,892,620	2,134,075
Interest-bearing Liabilities	14	373,776	586,025	373,776	586,025
Current tax Liabilities	5	4,169,540	2,830,908	3,979,897	2,830,908
Provisions	13	2,114,836	935,070	2,114,836	935,070
Other	15	2,097,391	2,828,225	2,097,391	2,828,225
Total Current Liabilities		13,919,976	9,292,962	13,458,520	9,314,303
NON-CURRENT LIABILITIES					
Interest-bearing Liabilities	14	9,729,347	5,751,662	9,729,347	5,751,662
Deferred Tax Liabilities	5	545,720	1,627,472	657,571	1,627,502
Other	15	-	641,667	-	641,667
Total Non-Current Liabilities		10,275,067	8,020,801	10,386,918	8,020,831
TOTAL LIABILITIES		24,195,043	17,313,763	23,845,438	17,335,134
NET ASSETS		16,635,758	12,980,605	16,454,145	12,980,675
EQUITY					
Contributed Equity	17	4,845,253	2,920,253	4,845,253	2,920,253
Retained Profits	16	11,790,505	10,060,352	11,608,892	10,060,422
TOTAL EQUITY		16,635,758	12,980,605	16,454,145	12,980,675

The above Statement of Financial Position is to be read in conjunction with the attached notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE, 2005

		CONSOLIDATED		COMPANY	
	Note	2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from growers		17,107,609	6,821,756	17,107,609	6,821,757
Interest received		283,074	124,536	282,949	124,536
Payments to suppliers and employees		(9,967,557)	(6,713,186)	(9,746,306)	(6,638,706)
Borrowing costs paid		(1,285,719)	(245,555)	(1,285,719)	(245,555)
Income taxes paid		(1,217,820)	(487,485)	(1,217,820)	(487,485)
GST recovered / (paid)		39,956	(176,061)	(91,825)	(229,100)
Net cash provided by/(used in) operating activities	37	4,959,543	(675,995)	5,048,888	(654,553)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for property, plant and equipment		(1,526,856)	(531,388)	(601,944)	(531,388)
Payment for land		-	(2,703,952)	-	-
Payments for Intangibles		-	(219,833)	-	(219,833)
Proceeds on disposal of plant and equipment		1,800	31,776	1,800	31,776
Payment for controlled entities		-	-	(1,000,200)	(100)
Net cash used in investing activities		(1,525,056)	(3,423,397)	(1,600,344)	(719,545)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(853,040)	(426,520)	(853,040)	(426,520)
Proceeds/(Repayments) from borrowings		(657,792)	(446,722)	(657,792)	(446,722)
Loan to Controlled Entity		-	-	-	(2,740,120)
Proceeds from convertible notes issue		3,341,200	5,658,800	3,341,200	5,658,800
Net cash provided by financing activities		1,830,368	4,785,558	1,830,368	2,045,438
Net increase (decrease) in cash held		5,264,854	686,166	5,278,912	671,340
Cash at the beginning of the year	37	2,848,167	2,162,001	2,833,341	2,162,001
Cash at the end of the year	37	8,113,021	2,848,167	8,112,253	2,833,341

The above Statement of Cash Flows is to be read in conjunction with the attached notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

Note 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

(b) Principles of Consolidation

The consolidated financial report combines the financial report of Queensland Paulownia Forests Ltd and its controlled entities (Refer Note 27).

The effects of all transactions between entities have been eliminated.

Where controlled entities have entered or left the economic entity during the year their operating results have been included from the date control was obtained or until the date control ceased.

(c) Income Tax

Income tax has been brought to account using a method of tax effect accounting whereby income tax expense for the period is calculated on the accounting profit after adjusting for items which, as a result of their treatment under income tax legislation, create permanent differences between that profit and the taxable income. The tax effect of timing differences which arises from the recognition in the accounts of items of revenue and expenses in periods different from those in which they are assessable or allowable for income tax purposes, are represented in the balance sheet as "future income tax benefits" or "provision for deferred income tax", as the case may be at current tax rates. A future income tax benefit is only carried forward as an asset where realisation of the benefit can be regarded as being assured beyond reasonable doubt.

(d) Inventories

Finished goods, raw materials and work in progress are measured at the lower of cost and net realisable value.

(e) Property, Plant and Equipment

Freehold land and buildings and plant and equipment are stated at cost.

All property, plant and equipment including leasehold improvements are depreciated and amortised over their estimated useful lives commencing from the time the asset is held ready for use, in a combination of the straight line and diminishing value methods. The depreciation and amortisation rates for each class of assets is as follows:

Leasehold Improvements	10%
Plant and Equipment - Owned	12.5% - 40%
Plant and Equipment - Leased	22.5% - 25%

Recoverable amounts

The carrying amounts of non-current assets do not exceed the net amounts that are expected to be recovered through the cash inflows and outflows arising from continued use and subsequent disposal. The expected net cash flows included in determining the recoverable amounts have been discounted to their present value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

(f) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense.

Operating lease payments are charged to expense on a basis which is representative of the pattern of benefits derived from the leased property.

(g) Employee benefits

The following liabilities arising in respect of employee benefits are measured at their nominal amounts:

- wages and salaries and annual leave regardless whether they are expected to be settled within twelve months of balance date.
- other employee benefits which are expected to be settled within twelve months of balance date.

All other employee benefits, including long service leave, are measured at the present value of the estimated future cash outflows in respect of services provided up to balance date. Liabilities are determined after taking into consideration estimated future increases in wages and salaries and past experience regarding staff departures. Related on-costs are included.

Contributions are made to the employee superannuation funds and are charged as expenses when incurred.

(h) Cash and Term Deposits

Cash includes cash in banks, which is at call, at variable interest rates.

(i) Revenue recognition

(a) Sale of goods

Fees received on application from growers, to enter into a Farming Agreement and or Establishment and Maintenance Agreement providing then with a licence to occupy land and a certificate of ownership of trees in a woodlot, is recognised as sale revenue in the year the application moneys are received, since at that point in time the applicant assumes the risks and benefits of ownership of the trees.

A portion of the application money, applicable to the licence to occupy land for twelve months, is deferred and brought to account as revenue over the next twelve months.

(b) Rendering of services

Licence and maintenance fees payable annually are recognised as revenue over the period of twelve months after the due date for payment of the fees.

Licence and maintenance fees payable from the proceeds of the harvest of trees are estimated and the net present value of the fees is taken to account annually, as earned under the agreement.

(c) Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

(j) Self Generating and Regenerating Assets

Self generating and regenerating assets being Paulownia trees in forests are accounted for in accordance with Accounting Standard AASB 1037 Self Generating and Regenerating Assets.

Statement of Financial Position

Self generating and regenerating assets are recorded as assets at year-end at the amounts expected to be received from the disposal of the assets in an active and liquid market and deducting costs expected to be incurred in realising the proceeds of such a disposal.

Trees which are growing but not ready for harvest are valued at the net present value of the expected net market value of the trees when harvested. Costs of harvest, milling and selling the timber are deducted from revenue from the sale of timber to arrive at net market value.

Net market values have been determined in accordance with the directors valuation confirmed as reasonable through a valuation obtained by the project forester, Robin Yule.

Non-living produce extracted from self generating and regenerating assets, consisting of timber and timber products, will constitute inventory which will be initially recognised at net market value determined immediately after harvest, less the costs of conversion from trees to milled timber.

Statement of Financial Performance

Increments and decrements in the net market value of self generating and regenerating assets are recognised in the statement of financial performance as revenue and expense in the financial year in which the increments and decrements occur.

Increments and decrements in the net market value of timber, extracted from trees, from the beginning of the year to harvest, less the costs of harvest and milling, will be recognised in the statement of financial performance as revenue or expense, in the financial year harvest and milling occurs.

There are no self-generating and regenerating assets for which the entity's use or capacity to sell is subject to restrictions imposed by regulations or other external requirements that have a significant impact on their total net market value.

(k) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts. Receivables are usually settled in 30 days.

(l) Growers Loans

Grower loans are brought to account at the principal amount of the loan due, less any provision for doubtful debts. Loans are both interest and non interest bearing, maturing between 1 to 10 years from the date of issue. In the event of a default by an investor on their growers loan, the Responsible Entity has the right to sell the woodlots attached to the loan to recover loan amounts outstanding and sue the grower for any shortfall.

(m) Research and Development Costs

Research and Development costs are expensed as incurred.

(n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(o) Payables

Accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company. Trade creditors are unsecured, non interest bearing and are normally settled on 30 day terms.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

(p) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred except borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use/sale. In this case the borrowing costs are capitalised as part of the cost of the asset.

(q) Credit Risk

Credit risk represents the risk of counter party default. The maximum credit risk exposure is represented by the carrying amount of assets in the balance sheet net of any provisions for losses.

(r) Interest Bearing Liabilities

Loans are recognised in the financial statements on the basis of the nominal amounts outstanding at balance date plus any accrued interest.

Convertible notes are recognised at their face value, being the nominal amount outstanding at balance date. Any accrued interest due to the noteholders at balance date has been accrued and included in creditors.

(s) Financial Instruments Issued

Converting financial instruments, such as convertible notes, which must convert to ordinary shares are classified as financial liabilities on initial recognition to the extent that holders are not exposed to changes in fair value of the Company's ordinary shares.

Where the conversion rate is based on fair market value of the Company's ordinary shares at the date of conversion, the proceeds received are classified as liabilities and related distributions as interest expense.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Note 2 - REVENUES FROM ORDINARY ACTIVITIES					
Operating Revenue					
Rendering of Services:					
Establishment Fees	35	27,129,902	14,855,263	27,129,902	14,855,263
Plantation and Management and Farming Licence Fees		3,277,335	2,925,645	3,277,335	2,925,645
Sale of Goods					
Sale of Super Roots, Seedlings and Paulownia Timber		12,766	31,124	12,766	31,124
Other revenues:		667,989	390,147	585,798	390,147
Total operating revenue		31,087,992	18,202,179	31,005,802	18,202,179
Non-Operating Revenue					
Interest		443,783	124,536	443,658	124,536
Total non-operating revenue		443,783	124,536	443,658	124,536
Total revenue from ordinary activities		31,531,775	18,326,715	31,449,460	18,326,715

Note 3 - OTHER EXPENSES FROM ORDINARY ACTIVITIES

Commissions	1,683,882	847,339	1,683,882	847,339
Contracting fees	1,042,896	977,456	1,042,896	977,456
Bad and doubtful debts	81,200	-	81,200	-
Insurance	356,464	326,156	356,464	326,156
Rent and outgoing	654,931	565,982	1,292,431	565,982
Legal Fees	332,503	175,463	332,503	175,463
Printing and stationery	275,217	93,715	275,217	93,715
Repairs & Maintenance	232,275	183,295	232,275	183,295
Underwriting Fee	1,283,333	733,333	1,283,333	733,333
Travel & Accommodation	234,707	91,297	234,707	91,297
Other expenses from ordinary activities	2,998,927	1,399,116	2,538,615	1,399,016
Total other expenses from ordinary activities	9,176,335	5,393,152	9,353,523	5,393,052

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Note 4 - PROFIT FROM ORDINARY ACTIVITIES					
Profit from ordinary activities includes:					
Net gains/(Losses) on disposal of Property, Plant & Equipment		660	(117)	660	(117)
Net bad and doubtful debts expense		81,200	95,190	81,200	95,190
Underwriting Fee	35	1,283,333	733,333	1,283,333	733,333
Cost of Sale of Super Roots and Seedlings		4,433	11,016	4,433	11,016
Net expense resulting from movements in provisions for:					
- Employee entitlements		46,726	25,639	46,726	25,639
- Amortisation of leasehold improvements		32,264	35,187	32,264	35,187
- Depreciation of owned plant & equipment		311,752	285,119	311,752	285,119
- Amortisation of leased plant & equipment		33,810	40,187	33,810	40,187
- Amortisation of capitalised water improvements		130,293	130,234	130,293	130,234
- Amortisation of capitalised costs Convertible Notes		175,866	43,967	175,866	43,967
		730,711	560,333	730,711	560,333
Borrowing Costs		1,285,719	245,555	1,285,719	245,555
Operating lease expense – minimum lease payments		657,332	632,680	657,332	632,680
Research and Development Costs		313,429	479,791	313,429	479,791
Note 5 - INCOME TAX					
The amount provided in respect of income tax differs from the amount prima facie payable on operating profit. The difference is reconciled as follows:					
Prima facie tax on operating profit calculated at @ 30%		4,175,659	2,954,404	4,097,808	2,954,434
Add - Tax effect of:					
- Non-deductible expenses		2,692	3,509	2,692	3,509
- Share Issue Costs		(8,046)	(8,046)	(8,046)	(8,046)
- Research & Development Expenditure		(23,507)	(35,984)	(23,507)	(35,984)
- Overprovision from prior year		(15,286)	(40,755)	(15,286)	(40,755)
- Tax Loss Brought Forward Previous Year (QLH)		(31)	-	-	-
Income tax expense relating to ordinary activities	35	4,131,481	2,873,128	4,053,661	2,873,158
Current tax liabilities		4,169,540	2,830,908	3,979,897	2,830,908
Non-Current tax liabilities		545,720	1,627,472	657,571	1,627,502

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Note 6 - RECEIVABLES					
Current -					
Trade and Sundry Debtors		1,777,747	4,743,677	1,777,694	4,743,677
Grower's Loans	1 (l)	8,723,587	313,224	8,721,953	313,224
Underwritten Sales		6,798,909	5,357,000	6,798,909	5,357,000
Total Current receivables		17,300,243	10,413,901	17,298,556	10,413,901

In the event of a default by an investor on their Plantation Management and Licence fees, the Responsible Entity has the right to sell the woodlots of the investor to recover amounts outstanding.

The directors have made enquiry as to the ability of the Underwriter to complete its obligations in respect of the Underwriting Agreement (Note 26) for the year ending 30 June 2005, which includes payment of the receivable of \$8,330,109 included in current and non current growers loans.

Based on information sought and received by the directors in relation to this matter they are satisfied that the receivable will be collected, however the directors advise there is some inherent market risk associated with collection.

No provision has been made for non collection of the receivable.

Non-Current -

Loan to Subsidiary		-	-	1,646,986	2,740,120
Underwritten Sales		1,531,200	5,357,000	1,531,200	5,357,000
Growers Loans	1(l)	2,585,677	100,805	1,882,712	100,805
		4,116,877	5,457,805	5,060,898	8,197,925

Note 7 - INVENTORIES

Current - at cost

Nursery Stock and stores		158,468	80,820	158,468	80,820
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Note 8 - OTHER

Current

Security deposits and operating prepayments	20	540,170	245,233	440,170	245,233
Prepayments - Underwriting Fees	26	641,667	550,000	641,667	550,000
Total Current Other		1,181,837	795,233	1,081,837	795,233

Non Current

Prepayments - Underwriting Fees		-	641,667	-	641,677
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Note 9 - SELF GENERATING AND REGENERATING ASSETS

Paulownia Trees in the following locations in Queensland:

	1 (j)				
Project 1 - Wooroolin and Kumbia		190,536	280,000	190,536	280,000
Project 2 - Kumbia, Island Creek and Palm Range		377,665	620,416	377,665	620,416
Project 3 - Island Creek, Riverbend and Austin Downs		997,355	3,765,160	997,355	3,765,160
Project 4 - Austin Downs		35,420	29,864	35,420	29,864
Project 5 - Austin Downs		44,275	29,864	44,275	29,864
Project 6 - Austin Downs		20,670	8,386	20,670	8,386
		1,665,921	4,733,690	1,665,921	4,733,690

The Directors valuation has been confirmed as reasonable by Mr Robin Yule (BSc. Forestry), of Yulebar Enterprises, Project Forester.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Trees owned by the company in Project 3 were coppiced and are therefore now valued as Year 1 trees. This affected the projected harvest dates and therefore the net present value calculation.

Significant assumptions made by the Directors' in determining the net market value of the trees, which have been confirmed as reasonable by the independent valuer, are:

(i) The trees will reach maturity and are expected to be harvested 25% each year over four years as follows:

Project 1	-	2005, 2006, 2007, 2008
Project 2	-	2006, 2007, 2008, 2009
Project 3	-	2012, 2013, 2014, 2015
Project 4	-	2009, 2010, 2011, 2012
Project 5	-	2009, 2010, 2011, 2012
Project 6	-	2010, 2011, 2012, 2013

(Trees carried as self generating and regenerating assets are predominantly in Projects 2 and 3.)

(ii) The expected market value of the trees is determined using a yield of Year 8- 45%, Year 9- 50%, Years 10&11- 58% and based on the current price of timber of similar type and size.

(iii) The costs of harvesting and milling have been determined based on research into current costs expected in today's' market for cutting, carrying and milling timber of a similar size and type.

(iv) The pre tax real rate at which the net cash flows are discounted is 12.5% over all years . This is based on an independent expert valuers report commissioned by the directors in 2005. In this year, due to the ongoing extreme drought conditions and confirmed by the valuer (refer Note 1 (d)), the directors considered it prudent to reduce the expected round log yields and therefore the valuation to reflect the effect the drought, if it continues, may have on overall tree growth, based on the application of the stated discount rates, was taken into account.

(v) No allowance has been made to adjust revenue or costs from estimates at the present time to the possible revenue and costs at harvest because of the effects of inflation or changes in demand and supply of the product.

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Note 10 - OTHER FINANCIAL ASSETS

Current

Shares in Radicle Projects PLC (at cost)	783,006	-	783,006	-
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Non Current

Shares in 100% Owned Subsidiaries

Quality Land Holdings Pty Ltd	-	-	100	100
QPFL Finance Pty Ltd	-	-	1,000,000	-
QPFL Milling Pty Ltd	-	-	100	-
QPFL Contract Services Pty Ltd	-	-	100	-

Total Non Current	-	-	1,000,300	100
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Note 11 - PROPERTY, PLANT AND EQUIPMENT				
Land - At cost	4,163,265	2,703,952	1,790,183	-
Leasehold Improvements - At cost	423,180	423,180	423,180	423,180
Accumulated Amortisation	(161,075)	(128,811)	(161,076)	(128,811)
	262,105	294,369	262,104	294,369
Plant and Equipment - At cost	6,273,266	4,892,514	6,273,266	4,892,514
Accumulated Depreciation	(3,297,615)	(2,887,833)	(3,297,616)	(2,887,833)
	2,975,651	2,004,681	2,975,650	2,004,681
Plant and Equipment - Under finance lease	261,094	261,094	261,094	261,094
Accumulated Amortisation	(150,687)	(116,877)	(150,687)	(116,877)
	110,407	144,217	110,407	144,217
Total Property, Plant & Equipment	11,120,805	8,280,740	8,747,723	5,576,788
Total Accumulated Depreciation/Amortisation	(3,609,377)	(3,133,521)	(3,609,379)	(3,133,521)
Net Carrying Value of Property, Plant & Equipment	7,511,428	5,147,219	5,138,344	2,443,267

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Land

Movements during the year:

Beginning of year	2,703,952	-	-	-
Land Purchased at cost	-	2,373,082	-	-
Land Development Costs	1,459,313	330,870	1,790,183	-
End of year	4,163,265	2,703,952	1,790,183	-

The Public Trustee of Queensland, as trustee for the Convertible Note Holders, has registered a mortgage over the property, water rights and improvements to the land, which is owned by Quality Land Holdings Pty Ltd, a 100% subsidiary of Queensland Paulownia Forests Ltd.

Queensland Paulownia Forests Ltd has a registered lease on the land from Quality Land Holdings Pty Ltd.

Leasehold Improvements

Movements during the year:

Beginning of year	294,369	326,110	294,369	326,110
Additions	-	3,446	-	3,446
Amortisation	(32,264)	(35,187)	(32,264)	(35,187)
End of year	262,105	294,369	262,105	294,369

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Plant and Equipment					
Movements during the year:					
Beginning of year		2,004,681	1,888,798	2,004,681	1,888,798
Additions		1,388,051	527,942	1,388,051	527,942
Disposals		(7,300)	(31,893)	(7,300)	(31,893)
Depreciation		(409,781)	(380,166)	(409,781)	(380,166)
End of year		2,975,651	2,004,681	2,975,651	2,004,681

Plant and Equipment - Leased

Movements during the year:

Beginning of year		144,217	128,075	144,217	128,075
Additions		-	56,329	-	56,329
Amortisation		(33,810)	(40,187)	(33,810)	(40,187)
End of year		110,407	144,217	110,407	144,217

Assets pledged as security - Net Carrying Value	25	-	382,693	-	382,693
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Assets pledged as security for G E Capital Australia:

Farming and agricultural equipment owned at 30 June 2001. This contract was paid out on 21/12/2004.

Note 12 - PAYABLES

Current -

Trade Creditors and accruals - Unsecured		5,164,433	2,112,734	4,892,620	2,134,075
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Included in the above are aggregate amounts payable to the following related parties:

Directors and related parties		19,424	57,620	19,424	57,620
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Note 13 - PROVISIONS

Current -

Dividend Declared & Payable					
Opening Balance at 30 June, 2004		853,040	426,520	853,040	426,520
Dividend declared and provided for during the year		1,986,080	853,040	1,986,080	853,040
Dividend paid during the year		(853,040)	(426,520)	(853,040)	(426,520)
Closing Balance at 30 June, 2005		1,986,080	853,040	1,986,080	853,040

Employee benefits		128,756	82,030	128,756	82,030
		2,114,836	935,070	2,114,836	935,070

Total number of Employees at year end		67	49	67	49
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Note 14 - INTEREST BEARING LIABILITIES					
Current -					
Credit Cards		10,548	25,563	10,548	25,563
Insurance Premium Funding		213,514	139,093	213,514	139,093
Secured Borrowings:					
Finance Facility	25	-	361,176	-	361,176
Hire Purchase Liabilities		149,714	60,193	149,714	60,193
		373,776	586,025	373,776	586,025

Non Current -

Secured Borrowings:					
Convertible Notes	29	9,452,514	5,658,800	9,452,514	5,658,800
Hire Purchase Liabilities		276,833	92,862	276,833	92,862
		9,729,347	5,751,662	9,729,347	5,751,662

The only facility not fully utilised at the end of the financial year was for Credit Cards. Total credit limit is \$32,000, therefore \$21,452 has not been utilised as at 30 June 2005.

The Public Trustee of Queensland, as trustee for the Convertible Note Holders, has registered a mortgage over the property, water rights and improvements to the land, which is owned by Quality Land Holdings Pty Ltd, a 100% subsidiary of Queensland Paulownia Forests Ltd.

Note 15 - OTHER LIABILITIES

Current -

Prepaid Plantation Licence & Management fees		1,815,603	1,504,343	1,815,603	1,504,343
Growers Debts owing to third party		31,215	40,549	31,215	40,549
United Pacific Finance Pty Ltd		134,005	-	134,005	-
Queensland Forestry Trust		116,568	-	116,568	-
Underwriting Fees	26	-	1,283,333	-	1,283,333
		2,097,391	2,828,225	2,097,391	2,828,225

Non Current -

Underwriting Fees		-	641,667	-	641,667
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
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Note 16 - RETAINED PROFITS AND TOTAL EQUITY

(a) Retained Profits

Balance at beginning of year		10,060,352	3,938,508	10,060,422	3,938,508
Correction of fundamental error (net of tax)	35	(6,071,150)	-	(6,071,150)	-
Net Profit		9,787,383	6,974,884	9,605,700	6,974,954
Dividends		(1,986,080)	(853,040)	(1,986,080)	(853,040)
Balance at the end of year		11,790,505	10,060,352	11,608,892	10,060,422

(b) Total Equity

Balance at beginning of year		12,980,605	6,858,761	12,980,675	6,858,761
Total changes in equity recognised in the statement of financial performance		3,716,233	6,974,884	3,534,550	6,974,954
Transactions with owners as owners:					
Capital Issued throughout the period		1,925,000	-	1,925,000	-
Dividends		(1,986,080)	(853,040)	(1,986,080)	(853,040)
Balance at the end of year		16,635,758	12,980,605	16,454,145	12,980,675

Note 17 - CONTRIBUTED EQUITY

Issued Shares (Number of shares)

Ordinary Shares fully paid

Opening balance		21,325,995	4,325,995	21,325,995	4,325,995
"A" Shares converted to Ordinary		-	17,000,000	-	17,000,000
Shares Issued throughout the period		3,500,000	-	3,500,000	-
Balance Year End		24,825,995	21,325,995	24,825,995	21,325,995
Total shares issued		24,825,995	21,325,995	24,825,995	21,325,995

2005

Shares issued during the period:

	2005 \$ Value	2005 Units
Opening balance	2,920,253	21,325,995
Shares issued during the period	1,925,000	3,500,000
Closing Balance	4,845,253	24,825,995

2004

Shares issued during the period:

	2004 \$ Value	2004 Units
Opening balance	2,920,253	21,325,995
Nil Shares issued during the period	-	-
Closing Balance	2,920,253	21,325,995

All Ordinary Shares carry voting rights of one vote per share. At balance date there were no shares reserved for issue under options.

The Underwriting Fee recorded as an expense and prepaid fees in the 2004 year and was converted to issued capital in the 2005 financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Note 18 - DIVIDEND IMPUTATION					
Dividends that have or will be franked		1,986,080	853,040	1,986,080	853,040
Amount per share		8 cents	4 cents	8 cents	4 cents
Applicable Tax Rate		30%	30%	30%	30%
Balance of franking account at end of year @ 30%		592,245	454,842	592,245	454,842

Note 19 - COMMITMENTS FOR EXPENDITURE

Operating Leases

Agreements have been entered into for the purpose of leasing plant, motor vehicles, office space and the land on which the woodlots are planted.

Minimum lease payments under non-cancellable operating leases according to the time expected to elapse to the expected date of payment:

- not later than one year	1,032,443	742,064	1,967,443	1,592,064
- later than one year, not later than five years	3,797,709	2,739,562	7,537,709	6,139,562
- later than five years	6,156,718	6,399,421	14,571,718	14,899,421
	10,986,870	9,881,047	24,076,870	22,631,047

Finance Leases

Payable

- not later than one year	173,728	73,347	173,728	73,347
- later than one year, not later than five years	312,484	92,862	312,484	92,862

	486,212	166,209	486,212	166,209
Less Future Finance Charges	(59,665)	(13,154)	(59,665)	(13,154)

Total Lease Liability	14	426,547	153,055	426,547	153,055
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Note 20 - EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 June 2005, QPFL Milling Pty Ltd has acquired the land and buildings of a timber mill at Kogan. QPFL Contract Services Pty Ltd acquired, on a going concern basis, the business of Kogan Timbers located at the Kogan property purchased by QPFL Milling Pty Ltd. The contract price totalling \$1.2 million was paid out of the cash reserves of Queensland Paulownia Forests Ltd. The mill at Kogan, in southern Queensland, is an operating Cypress mill and will also be used to process timber from Queensland Paulownia Forest Ltd's six Paulownia plantations in Queensland.

The financial effects of the above transaction have not been brought to account in the financial statements for the year ended 30 June 2005.

The deposit of \$100,000 for the purchase of the Kogan Mill has been included in other current assets as at 30 June 2005 (Note 8).

Note 21 - CONTINGENT LIABILITIES

The company has in place a put option with an external third party financier in relation to growers loans purchased in January, 2003, which requires the company to purchase 75% of the principle outstanding in the event of default. The maximum contingent liability at balance date is \$848,323. As referred to in note 1 (i) the company, in the event of default, has the right to sell the woodlots or resume the woodlot and bring them to account as a self generating and regenerating asset. This value is considered to be equal to or greater than the contingent liability. To date no defaults have triggered the exercise of the put option.

Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
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Note 22 - RELATED PARTY TRANSACTIONS

(i) Transactions with directors and their director related entities and other related parties during the year ended 30 June 2005 are on normal commercial terms and conditions no more favourable than those available to other parties, unless indicated.

1. David Michael Gold, a Director, purchased 300 Capital Forestry Units in Project No. 8 for \$330,000 including GST. QPFL Finance Pty Ltd provided finance for the purchase on similar terms made available to other non-related investors (interest rate 11.25%).

Subsequent to balance date this loan has been sold to a third party

Loan Balance at 30 June, 2005	303,250	-	-	-
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
<p>2. Elizabeth Hutchinson, a Director, purchased 100 Capital Forestry Units in Project No. 8 for \$110,000 including GST. QPFL Finance Pty Ltd provided finance for the purchase on similar terms made available to other non-related investors. The loan was sold as at 30 June 2005 to an independent third party financier, UnitedPacific Finance Pty Ltd, together with other Grower Loans (interest rate 11.25%)</p>					
Loan Balance at 30 June, 2005		-	-	-	-
<p>3. Family members of David Gold, a Director, purchased 220 Capital Forestry Units in Project No. 8 for \$242,000 including GST and 7 Woodlots in Project No.9 for \$38,500 including GST. QPFL Finance Pty Ltd provided finance for the purchase on similar terms made available to other non-related investors (interest rate 11.25%).</p> <p>Subsequent to balance date this loan has been sold to a third party</p>					
Loan Balance at 30 June, 2005		202,250	-	-	-
<p>4. United Capital Finance Pty Ltd - there were no related party transactions for the year ended 30 June 2005.</p>					
Fees		-	5,513	-	5,513
<p>5. Family members of David Gold, a Director, and their associated entities were employed by the company to provide Marketing and Print Production Services.</p>					
Consultant's Fees		46,660	-	46,660	-
Salary package		36,900	91,554	36,900	91,554
<p>7. An associate of Elizabeth Hutchinson, a Director, has provided services in relation to the Research and Development programme.</p>					
Consultancy Services		109,376	87,420	109,376	87,420
<p>8. Queensland Paulownia Forests Limited (QPFL) acts as custodian for Queensland Forestry Trust (QFT), a public trading trust which invests in woodlots in QPFL on behalf of QFT's investors. QPFL purchases annuities on behalf of QFT to provide income return to the investors and maintenance fees to QPFL.</p>					
		27,982	112,696	27,982	112,696

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

- (ii) Transactions with specified executive-related entities during the year ended 30 June 2005 are on normal commercial terms and conditions no more favourable than those available to other parties, unless indicated.

There have been no transactions during the year (2004 - nil)

- (iii) Transactions within the wholly owned group.

Transactions within the wholly owned group have been eliminated.

- (iv) Directors of the Parent Entity in office during the year unless otherwise stated

2005

David Gold

Elizabeth Hutchinson

Graham Fayle

Leon Lewandowski

2004

David Gold

Elizabeth Hutchinson

Graham Fayle

Leon Lewandowski

- (v) Number of Shares held by specified directors and specified executives or any related entities in Queensland Paulownia Forests Limited:

	1/7/04 Opening number	Movement	30/6/05 Closing number
Specified Directors			
David Gold	13,250,000	Nil	13,250,000
Elizabeth Hutchinson	750,000	Nil	750,000
Graham Fayle	-	Nil	-
Leon Lewandowski	3,000	Nil	3,000
Total	14,003,000	Nil	14,003,000

Specified Executives

No shares were held by specified executives throughout the year. (2004 - nil)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Note 23 - SPECIFIED DIRECTORS & EXECUTIVES REMUNERATION

(i) Specified Directors Remuneration

2005

Name	David Gold	Elizabeth Hutchinson	Graham Fayle	Leon Lewandowski
Position	Chairman/ Managing Director	Finance & Compliance Director	Operations Director	Non-executive Director
Primary benefit (salaries and fees)	120,000	148,942	172,826	101,653
Non monetary benefits	19,197	21,215	2,067	-
Post employment benefits (superannuation)	10,800	-	-	-
TOTAL	149,997	170,157	174,893	101,653
AGGREGATE SPECIFIED DIRECTORS TOTAL 2005				\$ 596,700

2004

Name	David Gold	Elizabeth Hutchinson	Graham Fayle	Leon Lewandowski	Blake Ammit
Position	CEO/Managing Director	Finance & Compliance Director	Operations Director	Non-executive Director	Non-executive Director
Primary benefit (salaries and fees)	120,000	122,230	133,830	81,230	5,500
Non monetary benefits	24,277	7,951	14,859	-	-
Post employment benefits (superannuation)	7,200	-	-	-	-
TOTAL	151,477	130,181	148,689	81,230	5,500
AGGREGATE SPECIFIED DIRECTORS TOTAL 2004					\$ 517,077

Non executive directors remuneration comprises fixed fees, determined having regard to the level of responsibility including committee memberships, industry practice and the need to obtain appropriately qualified independent persons. Fees do not contain any non-monetary benefits.

Remuneration of executive directors is determined and approved by the board. In this respect, consideration is given to normal commercial rate of remuneration for similar levels of responsibility. There are no bonuses provided to executive directors however the salary package is determined with reference to past performance.

There have been no changes of specified directors between the reporting date and the date of the directors' declaration.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

(i) Specified Executives Remuneration

2005

Name	Ian Sandeman
Position	CEO Commenced 10/01/05
Primary benefit (salaries and fees)	98,031
Cash Bonus	-
Non monetary benefits	20,653
Post employment benefits (superannuation)	8,823
TOTAL	127,507
AGGREGATE SPECIFIED EXECUTIVES TOTAL	\$127,507

2004

Name	Bex Gold	Hugh Witten	Stephen Szych	Robert Knight
Position	Marketing Manager	Operations Manager Resigned 8/10/04	Finance & Administration Manager Resigned 24/08/04	Finance & Administration Manager Resigned 03/10/03
Primary benefit (salaries and fees)	72,865	70,000	30,000	27,359
Cash benefits	2,500	8,570	-	2,500
Non monetary benefits	9,407	1,987	3,832	3,787
Post employment benefits (superannuation)	6,782	6,300	2,363	1,530
TOTAL	91,554	86,857	36,195	35,176
AGGREGATE SPECIFIED EXECUTIVES TOTAL 2004				\$ 249,782

Remuneration of the specified executives are determined by the board. In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility. No options have been given during the period.

Under AASB 1046 we have determined that no other employees of the Responsible Entity fit the criteria of a specified executive due to the size and organisational structure of the organisation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

	Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Note 24 - AUDITORS REMUNERATION					
Audit and review of financial reports		57,690	25,000	57,690	25,000
Other Services					
Taxation compliance services		121,034	74,761	121,034	74,761
		178,724	99,761	178,724	99,761

Note 25 - FINANCING FACILITIES

GE Capital Australia facility

The company had an Equipment Finance Facility with G E Capital Australia Limited for \$1,500,000. The facility was secured by the company's Farming and Agricultural equipment at 30th June, 2001. The loan was paid out on 21 December 2004, and notice has been lodged with ASIC that the property has been released from the charge.

14	-	361,176	-	361,176
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Credit Standby Arrangement

Bank overdraft facilities are provided by the company's bankers on an informal basis, whereby the bank will not dishonour any cheques presented on the company's cheque accounts, given that, at any one point in time one of the company's bank accounts has sufficient funds to cover the overdraft of the other bank account. No formal overdraft limit has been applied for or granted by the bank at 30th June 2005.

Note 26 - UNDERWRITING AGREEMENT

The company signed an Underwriting Agreement with a London based Investment Trust to underwrite sales of woodlots in the 2004, 2005 and 2006 financial years.

Sales totalling \$2,784,000 plus GST, made under the terms of the Underwriting Agreement, have been taken into account in the year ended 30 June 2005 (Note 6). (\$9,740,000- 2004)

Underwriting Fees were satisfied by way of an issue of 3,500,000 shares to the Underwriter at 55 cents per share . As security for the performance of the obligations of the Underwriter in terms of any loans outstanding in relation to woodlots issued as a result of the Underwriting Agreement the shares are charged as security until all loan repayments are received.

In addition the Underwriter has an irrevocable Share Call Option on the shares of Quality Land Holdings Pty Ltd, the land owning company. The shares will be issued in proportion to the land area on which the Underwriters trees are planted and the total area of land owned by the company on condition the Underwriter is not in breach of the Underwriting Agreement, the Services Agreement, any Loan Agreement or the Charge.

The Option is only exercisable on the occurrence of any trigger events listed in the Share Call Option Agreement.

Note 27- CONTROLLED ENTITIES

Quality Land Holdings Pty Ltd, incorporated in Australia on 29 July 2003, is a 100% subsidiary of Queensland Paulownia Forests Ltd.

The following 100% controlled entities were incorporated during the 2005 financial year;

QPFL Finance Pty Ltd, incorporated in Australia on 30 September 2004.

QPFL Milling Pty Ltd, incorporated in Australia on 9 December 2004.

QPFL Contract Services Pty Ltd, incorporated in Australia on 20 December 2004.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Note 28 - Financial Instruments - Interest Rate Risk and Credit Risk Exposure

Queensland Paulownia Forests Ltd does not engage in any transactions which are speculative in nature.

Interest Rate Risk Exposure

Exposure to interest rate risks on financial assets and liabilities are summarised as follows:

2005	NON INTEREST BEARING \$	1 YEAR OR LESS \$	OVER 1 TO 5 YRS \$	FLOATING INTEREST RATE \$	TOTAL \$	FIXED RATE %	FLOATING RATE %
Financial Assets:							
Term Deposits	-	3,115,930	-	-	3,115,930	5.20	-
Cash at Bank	259	-	-	4,996,832	4,997,091	-	3.25
Trade & Sundry Debtors	1,777,747	-	-	-	1,777,747	-	-
Growers Loans	-	15,522,496	4,116,877	-	19,639,373	5.14	-
	1,778,006	18,638,426	4,116,877	4,996,832	29,530,141		
Financial Liabilities:							
Accounts Payable	5,164,433	-	-	-	5,164,433	-	-
Premium Funding	-	213,514	-	-	213,514	2.92	-
Credit Cards	-	10,548	-	-	10,548	-	15.53
Convertible Notes	-	-	9,000,000	-	9,000,000	9.28	-
Hire Purchase Liability	-	149,714	276,833	-	426,547	7.55	-
	5,164,433	373,776	9,276,833	-	14,815,042	-	-
Net Financial Assets (Liabilities)	(3,386,427)	18,264,650	(5,159,956)	4,996,832	14,715,099		
2004	NON INTEREST BEARING \$	1 YEAR OR LESS \$	OVER 1 TO 5 YRS \$	FLOATING INTEREST RATE \$	TOTAL \$	FIXED RATE %	FLOATING RATE %
Financial Assets:							
Term Deposits	-	2,713,831	-	-	2,713,831	4.35	-
Cash at Bank	1,300	-	-	133,037	134,337	-	3.25
Trade & Sundry Debtors	4,743,677	-	-	-	4,743,677	-	-
Growers Loans	-	5,670,224	5,457,805	-	11,128,029	5.14	-
	4,744,977	8,384,055	5,457,805	133,037	18,719,874		
Financial Liabilities:							
Accounts Payable	2,112,734	-	-	-	2,112,734	-	-
Premium Funding	-	139,093	-	-	139,093	2.92	-
Credit Cards	-	25,563	-	-	25,563	-	15.53
Finance Facility	-	361,176	-	-	361,176	8.73	-
Convertible Notes	-	-	5,658,800	-	5,658,800	9.28	-
Hire Purchase Liability	-	60,193	92,862	-	153,055	7.55	-
	2,112,734	586,025	5,751,662	-	8,450,421		
Net Financial Assets (Liabilities)	2,632,243	7,798,030	(293,857)	133,037	10,269,453		

Net Fair Values of Financial Assets and Liabilities

The carrying amounts of financial assets and liabilities approximate their Net Fair Values. Net Fair Values of assets is the amount that could be received on disposal, less any costs of disposal. Net Fair Values of liabilities is the amount that could be paid to extinguish the debt, plus any costs of extinguishment.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Note 29- CONVERTIBLE NOTES

In accordance with a Prospectus dated 3 December 2003, 9,000,000 Convertible Notes ("Notes") of \$1 each have been issued at Balance date. These Notes are quoted on the Bendigo Stock Exchange. The maximum of \$9,000,000 was issued.

The Notes are redeemable on 30 June 2009 at a price of \$1.20.

Should QPFL list on a recognised Stock Exchange prior to the 30 June 2009, then Noteholders will have the option to convert the Notes into fully paid ordinary shares at a conversion price of \$1.20 or redeem them for cash at \$1.01.

Interest on the Notes is paid quarterly in arrears at 9.28% per annum for quarters ending 31 March, 30 June, 30 September and 31 December.

Interest paid and accrued on Notes for year ending 30 June 2005 is \$1,217,764.

The company has appointed The Public Trustee of Queensland as Trustee for the Noteholders pursuant to a Trust Deed dated 3 December 2003.

The Notes rank equally between themselves and have priority over dividend payments to shareholders.

The Notes are secured by way of;

- (i) A mortgage over the property, water rights and improvements to the land owned by Quality Land Holdings Pty Ltd at Forbes New South Wales.
- (ii) A charge over the assets of Quality Land Holdings Pty Ltd.
- (iii) The right to insurance proceeds of the Paulownia trees held by the company in its own right.

Quality Land Holdings Pty Ltd is a 100% subsidiary of Queensland Paulownia Forests Ltd.

Note 30 - OPTIONS

The following options to third parties to purchase shares in the company have been approved by the board for issue, but are not issued until such time that the conditions are met.

Options granted to Atlantic Law over 1% of the shares in Queensland Paulownia Forests Ltd based on the number of shares on issue at the date of admission to AIM (Alternative Investment Market) of the London Stock Exchange.

Exercise price is admission price of shares on admission to AIM.

Period of option is three years from date of admission to AIM.

Note 31 - SEGMENT INFORMATION

Throughout the year Queensland Paulownia Forests Ltd has operated in one industry and one geographical segment being plantation and management of Paulownia woodlots in Australia.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Note 32 - CORPORATE INFORMATION

Queensland Paulownia Forests Ltd is an unlisted public company incorporated and domiciled in Australia. The registered office and the principal place of business is located at Level 16, 50 Cavill Avenue, Surfers Paradise, Queensland. The number of employees at 30 June 2005 was 67. (2004 - 49)

Note 33- ECONOMIC DEPENDENCY

Queensland Paulownia Forests Ltd relies on fees from its Managed Investment Schemes to fund its operations.

Note 34 - IMPACT OF ADOPTING AUSTRALIAN EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition Management

The board has established a formal implementation project, monitored by a steering committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Assessment and Planning Phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, business structures and staff. The phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on business and its key processes;
- evaluation of the implication for staff, for example training requirements, and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is substantially complete as at 30 June 2005.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Design Phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS.

The design phase incorporated:

- formulation of revised accounting policies and procedures for compliance with AIFRS requirements;
- identification of potential financial impacts as at transition date and for subsequent reporting periods prior to adoption of AIFRS;
- development of IFRS disclosures;
- formulation of accounting and business processes to support AIFRS reporting obligations;
- identification of required changes to financial reporting and business source systems, and
- development of training programs for staff.

The design phase is substantially complete as at 30 June 2005.

Implementation Phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 First Time Adoption of Australian Equivalents to International Reporting Standards.

This phase is substantially complete as at 30 June 2005.

Impact of Transition to AIFRS

The impact of transition to AIFRS are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliation from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular industry or to a particular transaction;
- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The company and consolidated entity are not in a position to quantify the impact of the transition to AIFRS as management are yet to complete the transition project.

The key potential implications of the conversion to AIFRS on the consolidated entity are as follows;

Income Tax

AASB 112 "Income Tax" requires all income tax balances to be calculated using the comprehensive balance sheet liability method. Deferred tax items will be calculated by comparing the difference in carrying amounts to tax bases for all assets and liabilities and multiplying this by the tax rates expected to apply to the period when the asset is realised or the liability settled. Recognition of the resulting amounts are subject to some exceptions, but generally deferred tax balances must be calculated for each item in the statement of financial position. Deferred tax assets will only be recognised where there exists the probability that future taxable profit will be available to recognise the asset.

Inventories

Inventories will continue to be measured at the lower of cost and net realisable value under the new AASB 102. All items of inventory are subject to an impairment test. In the event that the circumstances that lead to an impairment write-down no longer exist or are favourable a reversal of the write-down through the statement of financial performance is required to be effected.

Self generating and regenerating assets

Self generating and regenerating assets will continue to be measured at the estimated fair value of the asset at balance date provided measurement is able to be reasonably estimated. If the fair value is unable to be reasonably estimated the asset must be recorded at cost and depreciated.

Measurement of fair value of trees owned by the company will be based on the expected yield and net harvest revenue discounted to reporting date for risk.

Property, Plant & Equipment

AASB 116 "Property Plant & Equipment" will allow the carrying amounts of property plant and equipment to include the costs of dismantling and removing items of property, plant and equipment at the conclusion of a lease term or similar arrangement. This amount will adjust the current carrying amount of certain items of property plant and equipment on initial adoption of AIFRS and will be depreciated over the remaining useful life of that related asset.

Any consideration which is deferred is recognised as the net present value of that amount using an appropriate discount rate.

Property, plant and equipment is subject to an impairment test when there is an indication that impairment exists by reference to internal and external market factors. Any item of property, plant & equipment which is impaired must be written down to its recoverable amount. The amount of the impairment write down for assets carried at cost will be expensed through the statement of financial performance.

Items of property, plant and equipment measured at fair value will still be carried as such, however the offsets of balances in the Asset Revaluation Reserve under the new standards will be determined on an "asset by asset" basis rather than the current "class by class" treatment. This means that a change to profit or loss will occur where impairment write down is necessary and there is no existing balance for that asset in the asset revaluation reserve.

Intangible Assets

AASB 138 "Intangible Assets" generally requires derecognition of all items that do not qualify as identifiable intangible assets. Capitalised borrowing costs fall into that category and consequently the unamortised carrying value of the asset will be written as an adjustment to opening retained earnings on the adoption of IFRS.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2005

Note 35- FUNDAMENTAL ERROR

At 30 June 2004, the company recognised revenue of \$9,740,000 and associated expenses of \$1,066,928 pursuant to various contractual agreements entered into with a third party. There were conditions relating to the sale which had not been satisfied as at 30 June 2004 to justify the recognition of the revenue and associated expenses.

The contractual conditions had not been satisfied as at 30 June 2004 therefore the directors considered there was a fundamental error in the preparation of 30 June 2004 financial statements.

As a result of errors in recognising the revenue and expenses above, receivables were overstated by \$10,714,000, inventories were understated by \$138,795, other assets were overstated by \$1,191,667, payables were overstated by \$974,000, other liabilities were overstated by \$2,119,800 and tax liabilities were overstated by \$2,601,922.

This error had the effect of overstating net profit before income tax for the year ended 30 June 2004 by \$8,673,072, overstating income tax expense by \$2,601,922 and net profit after tax for the year ended 30 June 2004 and retained profits at 30 June 2004 being overstated by \$6,071,150. The adjustment of these amounts have been made in the Statement of Financial Performance for the year ended 30 June 2005.

The restated consolidated financial information for the year ended 30 June 2005 and financial year ended 30 June 2004 are presented below as if the error had not been made:

	CONSOL 2005 \$	CONSOL 2005 \$ Excluding Error	CONSOL 2004 \$ Restated
Pro Forma statement of financial performance			
Revenue from ordinary activities	31,531,775	21,791,775	8,739,723
Expenses from ordinary activities	(17,612,911)	(16,545,983)	(7,564,783)
Profit/(loss) from ordinary activities before income tax expense	13,918,864	5,245,792	1,174,940
Income tax (expense)/benefit	(4,131,481)	(1,529,559)	(271,206)
Profit/(loss) from ordinary activities after income tax expense	9,787,383	3,716,233	903,734
Restatement of retained profits/(accumulated losses)			
Retained profits at beginning of year as previously reported	10,060,352	10,060,352	3,938,508
Correction of fundamental error (net of tax)	(6,071,150)	-	-
Restated retained profits at beginning of year	3,989,202	10,060,352	3,938,508
Restated profit from ordinary activities after income tax expense	9,787,383	3,716,233	903,734
Dividends recognised during the year	(1,986,080)	(1,986,080)	(853,040)
Restated retained profits at end of year	11,790,505	11,790,505	3,989,202
Restatement of items on the statement of financial position			
Receivables			
Balance at end of year as previously reported	21,417,121		15,871,706
Correction of fundamental error	-		(10,714,000)
Restated balance at end of year	21,417,121		5,157,706
Inventories			
Balance at end of year as previously reported	158,468		80,820
Correction of fundamental error	-		138,795
Restated balance at end of year	158,468		219,615
Other Assets			
Balance at end of year as previously reported	1,181,837		1,436,900
Correction of fundamental error	-		(1,191,667)
Restated balance at end of year	1,181,837		245,233

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2005

	CONSOL 2005 \$ Restated	CONSOL 2004 \$ Restated
Payables		
Balance at end of year as previously reported	5,164,433	2,112,734
Correction of fundamental error	-	(974,000)
Restated balance at end of year	5,164,433	1,138,734
Tax Liabilities		
Balance at end of year as previously reported	4,169,540	2,830,908
Correction of fundamental error	-	(2,601,922)
Restated balance at end of year	4,169,540	228,986
Other Liabilities		
Balance at end of year as previously reported	2,097,391	3,469,892
Correction of fundamental error	-	(2,119,800)
Restated balance at end of year	2,097,391	1,350,092

Note 36 - EARNINGS PER SHARE

Number for basic earnings per share

Note	CONSOL 2005 \$	CONSOL 2004 \$	PARENT 2005 \$	PARENT 2004 \$
Ordinary Shares	24,825,995	21,325,995	24,825,995	21,325,995
Net Profit After Tax	3,716,233	6,974,884	3,534,550	6,974,954
Earnings Per Share (cents)	14.97	32.71	14.24	32.71

Number for diluted earnings per share

Ordinary Shares	24,825,995	21,325,995	24,825,995	21,325,995
Effect of redeemable convertible notes	19,636,364	12,346,473	19,636,364	12,346,473
	44,462,359	33,672,468	44,462,359	33,672,468
Diluted Earnings Per Share (cents)	8.36	20.71	7.95	20.71

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30TH JUNE, 2005

CONSOLIDATED		COMPANY	
2005	2004	2005	2004
\$	\$	\$	\$

Note 37 - NOTES TO STATEMENTS OF CASH FLOWS

(a) Reconciliation of Cash

For the purpose of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statement of cashflows is reconciled to the related items in the balance sheet as follows:

Cash on hand	259	1,300	259	1,300
Term deposits	3,115,930	2,713,831	3,115,930	2,713,831
Cash at bank	4,996,832	133,036	4,996,063	118,209
	8,113,021	2,848,167	8,112,253	2,833,340

(b) Reconciliation of net cash provided by operating activities to operating profit after income tax

Operating profit after income tax	3,716,233	6,974,884	3,534,550	6,974,954
Depreciation	409,781	380,166	409,781	380,166
Amortisation	241,940	119,341	241,940	119,341
Provision for income taxes payable	1,338,632	2,210,711	1,148,989	2,210,711
Provision for deferred tax liability	(1,081,752)	174,931	(969,931)	174,961
Loss / (Gain) on Sale of plant and equipment	(660)	117	(660)	117

Changes in assets and liabilities:

Accounts receivable	(5,022,343)	(14,461,312)	(4,380,339)	(14,461,311)
Inventory	(77,648)	329,551	(77,648)	329,551
Accounts payable including GST	3,051,699	1,820,862	2,758,545	1,842,203
Provisions Employee benefits	46,726	25,639	46,726	25,639
Other Liabilities	(730,834)	1,902,123	(730,834)	1,902,123
Self generating and re-generating assets	3,067,769	(153,008)	3,067,769	(153,008)

Net cash provided by/(used in) operating activities

4,959,543	(675,995)	5,048,888	(654,553)
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Note 38 - EVENTS SUBSEQUENT TO REPORTING DATE

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australia equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 34 to the financial statements.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Queensland Paulownia Forests Limited :

- (a) the financial statements and notes, set out on pages 11 to 37, are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30th June, 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) comply with Accounting Standards in Australia and the Corporations Regulations 2001;


and

- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2005

Dated at Surfers Paradise this 30th day of September 2005

Signed in accordance with a resolution of the directors



Elizabeth Hutchinson
Director

INDEPENDENT AUDIT REPORT

Independent Audit Report to the Members of Queensland Paulownia Forests Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 11 to 38 for Queensland Paulownia Forests Limited (the "Company") and Queensland Paulownia Forests Limited and its controlled entities ("the consolidated entity") for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company, are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of the audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of there performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures performed, which included:

- examining on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Qualification - opening balances and comparatives

We were appointed as auditors during the year ended 30 June 2005. The financial report for the year ended 30 June 2004 was not audited by KPMG.

The financial report for the year ended 30 June 2004 contained a fundamental error as identified in note 35.

In addition we have been unable to obtain sufficient appropriate audit evidence to determine whether the remaining 30 June 2004 balances, which are the opening balances for the year ended 30 June 2005, are fairly stated.

Accordingly, we are not in a position to, and do not, express an opinion on the comparative information for 30 June 2004 included in the financial report. In addition, as the opening balances enter into the determination of the results of operations for the current year, we are unable to determine whether any additional adjustments to the results of operations or opening accumulated balances may be necessary for the year ended 30 June 2005.

Qualified Audit Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined as necessary had the limitation in scope described in the qualification paragraph not existed, the financial report of Queensland Paulownia Forests Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

Paul Steer Partner

Place: Gold Coast Date: 30th September 2005

CORPORATE GOVERNANCE

This report outlines the Company's main corporate Governance practices in place during the financial year ended 30 June 2005.

Board Composition

The Board comprises three executive directors and two non-executive directors. Executive Directors are David Michael Gold, Elizabeth Hutchinson, Graham Fayle and non-executive directors are Leon Lewandowski and Stephen van der Mye. The profiles of the directors at 30 June 2005 are on page 9 of this report.

As the Board consists of a majority of executive directors a Compliance Committee consisting of two external and one internal member has been appointed.

Directors Responsibilities

In accordance with the Corporations Act each director must act in good faith, in what he believes to be in the best interest of the Company and only exercise his powers for a proper purpose.

Directors must treat as confidential the information he or she has in relating to the Company and may not use that information for his or her own benefit.

Any director who is interested in a transaction with the Company must disclose to the Board the particulars of his or her interest.

Compliance Committee

Although there is no trustee, the Responsible Entity is obliged under the managed investments legislation to have a Compliance Committee with a majority of external members if more than half of the directors of the Responsible Entity are not external directors. The Company has appointed a Compliance Committee, the members of which are:

- External — Alex Fraser, a partner in the accounting firm of Alexander Partners of Brisbane
- External — Graham McClymont is a self-employed consultant in the compliance field.
- Internal — Leon Lewandowski, a Director of the Company

The functions of the Compliance Committee include monitoring of the Company as Responsible Entity to ensure compliance with the Constitution and Compliance Plan of each Managed Investment Project and compliance with the company's Australian Financial Services Licence. The Committee reports to the Responsible Entity, and if necessary ASIC, any breaches of the Constitution, Compliance Plan or Licence conditions. The Committee meets at a very minimum of quarterly.

Dealings in Securities

Insider trading is strictly prohibited. This policy covers Directors, Staff, Contract employees and associates of these persons. Dealing in the Company's securities is allowed when these persons are not in possession of insider information and during trading windows. Trading windows are the first four weeks after commencement of official quotation of QPFL securities and a period of six weeks commencing two days after the announcement of half yearly results, first announcement of annual results and the issue of a prospectus relating to securities to be listed on the exchange.

The Company Secretary may declare at any time that a trading window has closed

Meetings of the Board

The Board meets regularly throughout the year to review business strategies, financial performance and compliance. Notice of a meeting is given to every director together with an agenda and appropriate information to enable the directors to be fully informed on the affairs of the Company and the issues for discussion. A Director is able to participate in a Board meeting without requiring him or her to be physically present by telephone or other similar means where all persons participating in the meeting are able to hear one another.

Board Information

The management has an obligation to supply the Board with complete and adequate information in a timely manner, including management accounts of the Company's performance, position and prospects. The Board recognises that such information is essential to the effective discharge of its duties. The Company Secretary is responsible for ensuring appropriate Board papers are prepared and distributed to Board members in a format and at a time that allows Directors to be fully informed on the affairs of the Company and to properly prepare for discussion at Board meetings. The Board papers include background information relating to matters to be brought before the Board, copies of internal financial statements and budgets forecasts and any other relevant documents. Each Director has the opportunity to include topics on the agenda.

Audit Committee

The audit committee comprises three directors being Elizabeth Hutchinson, Stephen van der Mye and Leon Lewandowski. The members are appropriately qualified to discharge their responsibilities and functions. An Audit Charter sets out these responsibilities and functions.

The Audit Committee assists the Board in fulfilling its corporate governance responsibilities by:

monitoring and reviewing the integrity of financial statements, internal financial controls, and the independence, objectivity and effectiveness of the external auditors.

The Committee meets as frequently as required but must not meet less than twice per year. All Directors receive a copy of the Audit Committee paper for each meeting of the Committee

The Committee is authorised to investigate any activity of the Company and its controlled entities, in accordance with the Charter and is authorised to make recommendations to the Board regarding appropriate actions resulting from such investigations. The Committee has unrestricted access to executive management, all employees and all company records, tax and other financial advisers, legal advisers, and external auditors.

The Committee must review, and challenge where necessary the actions and judgment of management in relation to, all regular financial reports prepared for release to regulators and to the public, including half yearly and annual financial reports, before making appropriate recommendations to the Board. The Chair of the Committee must attend the Annual General Meeting and be available to respond to any shareholder questions on the Committee's activities and areas of responsibility

SHAREHOLDER STATISTICS

As 27 October 2005

- (a) There were 457 registered holders of the unlisted issued ordinary shares in the Company. Every ordinary share ranks equally on voting. Every shareholder present in person or by proxy has one vote on a show of hands and on a poll has one vote for each share held.
- (b) There is 1 holder of options over ordinary shares in the Company. The options do not have any voting rights.

(c) **Distribution Schedule**

RANGE	NO. OF HOLDERS	%	SHARES	%
1 - 1,000	1	.22	739	-
1,001 - 5,000	10	2.19	32,978	.13
5,001 - 10,000	320	70.02	2,105,761	8.48
10,001 - 100,000	118	25.82	3,251,850	13.10
100,001 and over	8	1.75	19,434,667	78.29
ALL RANGES	457	100.00	24,825,995	100.00

(d) **10 Largest Holders Ordinary Shares**

NAME	NO. OF SHARES	% OF TOTAL HOLDINGS
DAVID MICHAEL GOLD	13,250,000	53.37
RADICLE PROJECTS PTY LTD	3,200,000	12.88
MR DAVID CLIVE WALTER	1,034,667	4.16
ELIZABETH HUTCHINSON	750,000	3.02
SHELLPRO SUPER PTY LTD	500,000	2.01
MANAGED GROWTH (AUSTRALIA)	300,000	1.20
MICHAEL V DOHERTY PTY LTD	200,000	.80
MR GRAHAM TAYLOR & MRS GLYNN HELEN TAYLOR	200,000	.80
MR BENKO SANTIC	100,000	.40
MR WANG KWOK	100,000	.40
	19,634,667	79.08

CONVERTIBLE NOTE STATISTICS

- (e) There were 476 holders of the 9,000,000 Convertible Notes issued in the Company. These have no voting rights. The Notes are listed on the Bendigo Stock Exchange.

(f) **Distribution Schedule**

RANGE	NO. OF HOLDERS	%	CONVERTIBLE NOTES	%
1 - 1,000	-	-	-	-
1,001 - 5,000	120	25.21	600,000	6.67
5,001 - 10,000	148	31.09	1,426,800	15.85
10,001 - 100,000	200	42.02	5,563,200	61.81
100,001 and over	8	1.68	1,410,000	15.67
ALL RANGES	476	100.00	9,000,000	100.00

(g) **10 Largest Holders Convertible Notes**

NAME	NO. OF CONVERTIBLE NOTES	% OF TOTAL HOLDINGS
STEPHEN HYDE & SHELAGH HYDE	250,000	2.77
RYAHED PTY LTD	200,000	2.22
MARGARET AINSWORTH	200,000	2.22
MAAKU PTY LTD	200,000	2.22
DAVID CLIVE WALTER	150,000	1.66
BOOKNET PTY LTD	150,000	1.66
FRANK LATHAM & MARIAN LATHAM	140,000	1.55
J L PATRIACHE PTY LTD	120,000	1.33
LESLIE MICHAEL PAGE	100,000	1.11
DOUGLAS BADEN SAWTELL	100,000	1.11
	1,610,000	17.85

