



Annexure 3A

BSX Listing Rules

Half yearly/Yearly Disclosure

References

Version 1, Operative 23/8/2000

Chapter 3, BSX Listing Rules

QUEENSLAND PAULOWNIA FORESTS LIMITED

Name of entity

49 071 625 477

Half yearly (tick)

☒

31 December 2005

ABN, ACN or ARBN

Annual (tick)

☐
Half year/financial year ended
(‘Current period’)

Summary

Sales revenue or operating revenue

up

183%

to

\$A,000

10,109

Profit (loss) before abnormal items and
after tax

up

N/A

%

to

396

Abnormal items before tax

gain (loss) of

Profit (loss) after tax but before outside
equity interests

up

N/A

%

to

396

Extraordinary items after tax attributable
to members

gain (loss) of

Profit (loss) for the period attributable to
members

Up

N/A

%

to

396

Dividends (distributions)

Franking rate applicable

N/A

Current period

Final

0¢

Interim

0¢

Previous corresponding period

Final

0¢

Interim

0¢

Record date for determining entitlements to the dividend, (in the
case of a trust distribution)

N/A

Date 23/8/2000

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Annexure 3A Half Yearly/Yearly Disclosure

Short details of any bonus or cash issue or other items(s) of importance not previously released to BSX:

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Consolidated profit and loss account

	Current period \$A'000	Previous corresponding period \$A'000
Sales revenue or operating revenue	10,109	3,576
Expenses from ordinary activities	8,710	5,038
Borrowing costs	834	703
Share of net profit (loss) of associates and joint venture entities	-	-
Profit (loss) from ordinary activities before tax	565	(2,165)
Income tax on ordinary activities	169	540
Profit (loss) from ordinary activities after tax	396	(1,625)
Outside equity interests	-	-
Profit (loss) from ordinary activities after tax attributable to members	396	(1,625)
Profit (loss) from extraordinary activities after tax attributable to members	-	-
Profit (loss) for the period attributable to members	396	(1,625)
Retained profits (accumulated losses) at the beginning of the financial period	4,788	2,620
Net transfers to and from reserves	-	-
Net effect of changes in accounting policies	-	-
Dividends paid or payable	-	-
Retained profits (accumulated losses) at end of financial period	5,184	995

Profit restated to exclude amortisation of goodwill

Annexure 3A Half Yearly/Yearly Disclosure

	Current period \$A'000	Previous corresponding period \$A'000
Profit (loss) from ordinary activities after tax before outside equity interests and amortisation of goodwill	396	(1,625)
Less (plus) outside equity interests	-	-
Profit (loss) from ordinary activities after tax (before amortisation of goodwill) attributable to members	396	(1,625)

Revenue and expenses from operating activities

	Current period \$A'000	Previous corresponding period \$A'000
Details of revenue and expenses		
Revenue – sale of goods	482	9
Revenue - rendering of services	9,049	3,371
Revenue – interest	372	143
Other income	206	53
Net write down in biological assets	(178)	(78)
Plantation expenses	(3,371)	(2,288)
Milling expenses	(545)	-
Research & development	(148)	(222)
Selling & distribution expenses	(880)	(1,002)
Administration	(2,224)	(1,448)
Finance costs	(834)	(703)
Debts written off	(1,364)	0

Intangible and extraordinary items

	Consolidated - current period		
	Before tax \$A'000	Related tax \$A'000	After tax \$A'000
Amortisation of goodwill			
Amortisation of other intangibles			
Total amortisation of intangibles			
Extraordinary items (details)			

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Total extraordinary items			
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Comparison of half year profits
(Annual statement only)

	Current year - \$A'000	Previous year - \$A'000
Consolidated profit (loss) from ordinary activities after tax attributable to members reported for the 1st half year		
Consolidated profit (loss) from ordinary activities after tax attributable to members for the 2nd half year		

Consolidated balance sheet

	At end of current period \$A'000	As shown in last annual report \$A'000	As in last half yearly statement \$A'000
Current assets			
Cash	5,895	8,113	4,497
Receivable	10,279	17,248	995
Investments	-	783	-
Inventories	293	158	206
Other (provide details if material)	1,088	1,182	607
Total current assets	17,555	27,484	6,305
Non-current assets			
Receivables	-	4,117	109
Investments	-	-	-
Inventories – Biological assets	1,488	1,666	4,655
Other property, plant and equipment (net)	9,146	7,486	6,134
Intangibles (net)	286	-	-
Other (Deferred tax assets)	2,314	3,078	190
Total non-current assets	13,275	16,347	11,088
Total assets	30,789	43,831	17,393
Current liabilities			
Accounts payable	1,004	5,036	826
Borrowings	4,248	374	193

Date 23/08/2000

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Provisions	406	6,413	80
Deferred revenue	4,855	11,811	2,103
Other (provide details if material)	90	282	32
Total current liabilities	10,603	23,916	3,234
Non-current liabilities			
Accounts payable	-	-	-
Borrowings	10,117	9,729	9,494
Provisions	-	-	-
Other (deferred tax liability)	-	513	710
Total non-current liabilities	10,117	10,242	10,204
Total liabilities	20,720	34,158	13,438
Net assets	10,069	9,673	3,955
Equity			
Capital	4,885	4,885	2,960
Reserves	-	-	-
Retained profits (accumulated losses)	5,184	4,788	995
Equity attributable to members of the parent entity	-	-	-
Outside equity interests in controlled entities	-	-	-
Total equity	10,069	9,673	3,955
Preference capital and related premium included	-	-	-

Consolidated statement of cash flows

Cash flows related to operating activities

	Current period \$A'000	Previous corresponding period \$A'000
Receipts from customers	7,947	7,458
Payments to suppliers and employees	(8,455)	(5,867)
Dividends received	-	-
Interest and other items of similar nature received	186	143
Interest and other costs of finance paid	(418)	(667)
Income taxes paid	4,307	(471)
Other (GST paid)	(2,322)	(337)

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Half Yearly/Yearly Disclosure

Net operating cash flows	(7,369)	259
Cash flows related to investing activities		
Payments for purchases of property, plant and equipment	(1,768)	(856)
Proceeds from sale of property, plant and equipment	9	2
Payment for purchases of equity investments	-	-
Proceeds from sale of equity investments	-	-
Loans to other entities	-	-
Loans repaid by other entities	-	-
Other (provide details if material)	-	-
Net investing cash flows	(1,759)	(854)
Cash flows related to financing activities		
Proceeds from issues of securities (shares, options, etc.)	-	3,667
Proceeds from borrowings	-	-
Repayment of borrowings	(204)	(571)
Dividends paid	(1,986)	(853)
Other (loans sold to third parties)	9,100	-
Net financing cash flows	6,910	2,243
Net increase (decrease) in cash held	(2,218)	1,648
Cash at beginning of period (see Reconciliation of cash)	8,113	2,848
Exchange rate adjustments	-	-
Cash at end of period (see Reconciliation of cash)	5,895	4,496

Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows. If an amount is quantified, show comparative amount.

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Annexure 3A Half Yearly/Yearly Disclosure

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current period \$A'000	Previous corresponding period \$A'000
Cash on hand and at bank	260	76
Deposits at call	5,635	4,420
Bank overdraft	-	-
Other (provide details)	-	-
Total cash at end of period	5,895	4,496

Ratios

	Current period	Previous corresponding period
Profit before tax/sales		
Consolidated profit (loss) from ordinary activities before tax as a percentage of sales revenue	5.6%	(60.5)%
Profit after tax/equity interests		
Consolidated profit (loss) from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	3.9%	(41.1)%

Earnings per security (EPS)

	Current period	Previous corresponding period
Calculation of basic, and fully diluted, EPS in accordance with AASB 1027: Earnings per Share		
(a) Basic EPS	1.59 cents	(7.62) cents
(b) Diluted EPS (if materially different from (a))	1.82 cents	(3.41) cents

NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	40.6 cents	18.5 cents

Annexure 3A Half Yearly/Yearly Disclosure

Details of specific receipts/outlays, revenues/expenses

	Current period A\$'000	Previous corresponding period \$A'000
Interest revenue included	372	143
Interest revenue included but not yet received (if material)	-	-
Interest costs excluded from borrowing costs capitalised in asset values	-	-
Outlays (excepts those arising from the acquisition of an existing business) capitalised in intangibles (if material)	-	-
Depreciation (excluding amortisation of intangibles)	323	219
Debts written off	1,364	0

Control gained over entities having material effect

Name of entity

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the entity since the date in the current period on which control was acquired

\$

Date from which such profit has been calculated

Profit (loss) from ordinary activities and extraordinary items after tax of the entity for the whole of the previous corresponding period

\$

Loss of control of entities having material effect

Name of entity

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the entity for the current period to the date of loss of control

\$

Date from which the profit (loss) has been calculated

Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the entity while controlled during the whole of the previous corresponding period

\$

Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control

\$

Annexure 3A Half Yearly/Yearly Disclosure

Reports for industry and geographical segments

Segments

Operating Revenue

Sales to customers outside the economic entity

Inter-segment sales

Unallocated revenue

Total revenue

Segment result

Unallocated expenses

Consolidated profit from ordinary activities after tax (before equity accounting)

Segment assets

Unallocated assets

Total assets

) Comparative data for segment assets should be as at the
) end of the previous corresponding period
)

Dividends

Date the dividend is payable

N/A

Record date to determine entitlements to the dividend (ie. on the basis of registrable transfers received up to 5.00 pm)

N/A

Amount per security

		Franking rate applicable			
			%	%	%
<i>(annual report only)</i>					
Final dividend:	Current year	¢	N/A	¢	N/A
	Previous year	¢	¢	¢	¢
<i>(Half yearly and annual statements)</i>					
Interim dividend:	Current year	¢	N/A	¢	N/A
	Previous year	¢	¢	¢	¢

Annexure 3A Half Yearly/Yearly Disclosure

Total annual dividend (distribution) per security
(Annual statement only)

	Current year	Previous year
Ordinary securities	¢	¢
Preference securities	¢	¢

Total dividend (distribution)

	Current period \$A'000	Previous corresponding period - \$A'000
Ordinary securities	\$	\$
Preference securities	\$	\$
Total	\$	\$

Half yearly report – interim dividend (distribution) on all securities or Annual report – final dividend (distribution) on all securities

	Current period \$A'000	Previous corresponding period - \$A'000
Ordinary securities	\$	\$
Preference securities	\$	\$
Total	\$	\$

The dividend or distribution plans shown below are in operation.

The last date(s) for receipt of election notices to the dividend or distribution plans

Any other disclosures in relation to dividends (distributions)

Annexure 3A Half Yearly/Yearly Disclosure

Equity accounted associated entities and other material interests

Equity accounting information attributable to the economic entity's share of investments in associated entities must be disclosed in a separate notice. See AASB 1016: Disclosure of Information about Investments in Associated Companies.

Entities share of:	Current period A\$'000	Previous corresponding period A\$'000
Profit (loss) from ordinary activities before tax.		
Income tax		
Profit (loss) from ordinary activities after tax		
Extraordinary items net of tax		
Net profit (loss)		
Outside equity interests		
Net profit (loss) attributable to members		

Material interests in entities which are not controlled entities

The entity has an interest (that is material to it) in the following entities.

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to profit (loss) from ordinary activities and extraordinary items after tax	
Equity accounted associates and joint venture entities	Current period	Previous corresponding period	Current period A\$'000	Previous corresponding period A\$'000
Total				
Other material interests				

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Total				

Issued and listed securities

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

Category of securities

	Number issued	Number listed	Issue Price (cents)	Paid-up value (cents)
Preference securities (description)				
Changes during current period				
Ordinary securities				
Changes during current period				
Convertible debt securities (description and conversion factor)	9,000,000	9,000,000	100	100
Changes during current period	-	-	-	-

			Exercise price	Expiry date
Options (description and conversion factor)				
Changes during current period				
Exercised during current period				
Expired during current period				

Annexure 3A Half Yearly/Yearly Disclosure

Debentures		
Unsecured Notes		

Discontinuing Operations

Consolidated profit and loss account

	Continuing operations		Discontinuing operations		Total entity	
	Current period - \$A'000	Previous corresponding period - \$A'000	Current period - \$A'000	Previous corresponding period - \$A'000	Current period - \$A'000	Previous corresponding period - \$A'000
Sales revenue or operation revenue						
Other revenue						
Expenses from ordinary activities						
Profit (loss) before tax						
Less tax						
Profit (loss) from ordinary activities after tax						

Consolidated statement of cash flows

	Continuing operations		Discontinuing operations		Total entity	
	Current period - \$A'000	Previous corresponding period - \$A'000	Current period - \$A'000	Previous corresponding period - \$A'000	Current period - \$A'000	Previous corresponding period - \$A'000
Net operating cash flows						
Net investing cash flows						

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Net financing cash flows						
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Other disclosures

	Current period A\$'000	Previous corresponding period A\$'000
Carrying amount of items to be disposed of:		
- total assets		
- total liabilities		
Profit (loss) on disposal of assets or settlement of liabilities		
Related tax		
Net profit (loss) on discontinuance		

Description of disposals

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Comments by directors**Basis of accounts preparation**

If this statement is a half yearly statement it should be read in conjunction with the last annual report and any announcements to the market made by the entity during the period.

These are the first financial statements prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), and comparative figures have been adjusted to comply with AIFRS requirements. This Annexure 3A should be read in conjunction with the half-year accounts to 31 December 2005 as lodged with the BSX.

Annexure 3A
Half Yearly/Yearly Disclosure

Material factors affecting the revenues and expenses of the entity for the current period including seasonal or cyclical factors

See comments re change in accounting policies below.

A description of each event since the end of the current period which has had a material effect and is not related to matters already reported, with financial effect quantified (if possible)

Franking credits available and prospects for paying fully or partly franked dividends for at least the next year

The current balance of franking credits available is \$4,679,961, and the directors expect that future dividends will continue to be fully franked.

Changes in accounting policies since the last annual report and estimates of amounts reported in prior years are disclosed as follows.

The introduction of AIFRS has resulted in changes to accounting policies and restatement of prior results. In particular, a change in accounting policy for the recognition of income from plantation establishment services has resulted in income booked in previous accounting periods now being recognised in subsequent periods. Full details of the changes are contained in note 14 to the half-year accounts.

Changes in the amounts of contingent liabilities or assets since the last annual report are disclosed as follows.

The contingent liability regarding growers loans sold to third parties has reduced to \$271,906 (\$848,323 per the annual report as at 30 June 2005).

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Additional disclosure for trusts

Number of units held by the management company or responsible entity to their related parties.

A statement of the fees and commissions payable to the management company or responsible entity.

Identify:

- Initial service charges
- Management fees
- Other fees

Annual meeting

(Annual statement only)

The annual meeting will be held as follows:

Place

Date

Time

Approximate date the annual report will be available

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law.
- 2 This statement, and the financial statements under the Corporations Law (if separate), use the same accounting policies.
- 3 In the case of a half-yearly report the same accounting standards and methods of computation are/are not* (*delete one*) followed as compared with the most recent annual accounts. (NEW ACCOUNTING POLICIES ADOPTED TO COMPLY WITH AIFRS).
- 4 This statement does/does not* (*delete one*) give a true and fair view of the matters disclosed.
- 5 This statement is based on financial statements to which one of the following applies:

(Tick one)

☐

The financial statements have been audited.

☒

The financial statements have been subject to review by a registered auditor (or overseas equivalent).

Date ☐ 8/2000

**Annexure 3A
Half Yearly/Yearly Disclosure**

The financial statements are in the process of being audited or subject to review.

☐

The financial statements have *not* yet been audited or reviewed.

- 6 If the accounts have been or are being audited or subject to review and the audit report is not attached, details of any qualifications are attached/will follow immediately they are available* (*delete one*).
- 7 The entity has/~~does not have~~* (*delete one*) a formally constituted audit committee.

Sign here:


(Director/Company secretary)

Date: 16/3/06

Print name: Elizabeth Hutchinson

Notes

True and fair view If this statement does not give a true and fair view of a matter (for example, because compliance with an Accounting Standard is required) the entity must attach a note providing additional information and explanations to give a true and fair view.

Income tax If the amount provided for income tax in this statement differs (or would differ but for compensatory items) by more than 15% from the amount of income tax *prima facie* payable on the profit before tax, the entity must explain in a note the major items responsible for the difference and their amounts.

Additional information An entity may disclose additional information about any matter, and must do so if the information is material to an understanding of the financial statements. The information may be an expansion of the material contained in this statement, or contained in a note attached to the statement.

**REFER TO ATTACHED FINANCIAL STATEMENTS FOR THE HALF-YEAR
ENDED 31 DECEMBER 2005**



Queensland Paulownia Forests Limited
ABN 49 071 625 477

Financial Statements
For the Half Year ended 31 December 2005

Queensland Paulownia Forests Limited ACN 071 625 477
Level 16, 50 Cavill Avenue, Surfers Paradise Qld 4217

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Queensland Paulownia Forests Limited**DIRECTORS' REPORT**

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2005 and the independent review report thereon.

Directors

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

Name	Appointed
Mr David M Gold (Chairman)	April 2001
Dr Stephen van der Mye (Managing Director)	October 2005
Mrs Elizabeth Hutchinson	September 2001
Mr Graham J Fayle	September 2001
Mr Leon Lewandowski	August 1999

Principal activities

The principal activities of the company are to promote managed investments in Forestry, acting as a Responsible Entity, and the management of paulownia tree plantations in Australia.

On 31 August 2005 the company purchased the freehold land and business of Kogan Mill. In addition to continuing to process cypress logs, the mill will be substantially expanded and re-equipped to facilitate the processing of paulownia.

Review and Results of operations

The company, as Responsible Entity for 11 managed investment schemes, continues to focus on the establishment and maintenance of paulownia tree plantations. Substantial effort has been directed towards the establishment of new plantations near Forbes in New South Wales, and on completion of the current plantings the company will have approximately 3,644 hectares of plantations under management. The company has options to purchase additional land at Forbes for future plantation establishment.

The acquisition and expansion of the Kogan Mill will provide the company with the ability to process paulownia logs into a variety of timber products, increasing the options for subsequent sale, and thereby maximising the potential for achieving the best return for growers.

The net profit of the consolidated entity for the half-year after provision for income tax was \$395,602, equating to earnings per share (basic) of 1.59 cents per share.

This is the first financial report prepared under the Australian equivalents to International Financial Reporting Standards (AIFRS). The adoption of the new accounting standards has resulted in changes to the comparative figures for the six months to 31 December 2004 and the comparative balance sheet at 30 June 2005. Explanation of these adjustments is detailed in the accompanying notes to the financial statements.

The major impact of the new accounting policies has been the change in the manner in which the company accounts for fees for the establishment of plantation services. Recognition of these fees is now brought to account in line with the percentage of work completed on the provision of those services at balance date, and has resulted in the deferral of a substantial portion of fees earned in May and June each year. Whilst the subsequent recognition of fees over following months has resulted in the company reporting a profit for the half-year to December 2005 (compared to losses in previous corresponding periods), it is expected that profits in the second half of the financial year will be substantially higher.

Queensland Paulownia Forests Limited

Dividends

The following dividends were paid during the half-year:

Interim ordinary dividend of \$1,986,080 representing 8 cents per ordinary share, (2004: \$853,040 representing 4 cents per ordinary share) was declared in June 2005 and paid on 18 July 2005.

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

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2005.

Signed in accordance with a resolution of the Directors.


Elizabeth Hutchinson – Director

Dated at Surfers Paradise this 16th day of March, 2006.

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 review for the half-year ended 31 December 2005 there have been:

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

KPMG

Stephen Board
Partner

Place: Gold Coast

Date: 16th March 2006

Queensland Paulownia Forests Limited

Condensed Consolidated Interim Income Statement For the Half-Year Ended 31 December 2005

	Note	2005 \$	2004 \$
Revenue	2.	9,902,430	3,522,704
Other income		206,584	53,274
<i>Net (write down) in market value of Paulownia trees</i>		(177,730)	(78,310)
Plantation expenses		(3,371,273)	(2,288,192)
Milling expenses		(545,217)	-
Research and development		(147,876)	(222,170)
Selling and distribution expenses		(880,228)	(1,001,386)
Administration expenses		(2,224,057)	(1,448,070)
Finance costs		(833,482)	(703,257)
Debts written off		(1,364,372)	439
Profit (loss) before income tax		564,779	(2,164,968)
Income tax (expense) / benefit		(169,177)	540,401
Profit (loss) for the period attributable to equity holders of the parent		395,602	(1,624,567)
Basic earnings (loss) per share	10.	1.59 cents	(7.62) cents
Diluted earnings (loss) per share	10.	1.82 cents	(3.41) cents

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 30.

Queensland Paulownia Forests Limited

Condensed Consolidated Interim Statement of Recognised Income and Expense For the Half-year Ended 31 December 2005

	Note	2005 \$	2004 \$
<i>Net income recognised directly in equity</i>		-	-
<i>Profit (loss) for the period</i>		395,602	(1,624,567)
<i>Total recognised income and expense for the period attributable to shareholders</i>		<u>395,602</u>	<u>(1,624,567)</u>

The statement of recognised income and expense is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 30.

Queensland Paulownia Forests Limited

Condensed Consolidated Interim Balance Sheet
As at 31 December 2005

	Consolidated	
	31 December 2005	30 June 2005
	\$	\$
Current Assets		
Cash and cash equivalents	5,895,214	8,113,021
Trade and other receivables	10,278,706	17,247,792
Inventories	292,887	158,468
Other financial assets	-	783,006
Other assets	1,087,918	1,181,837
Total Current Assets	17,554,725	27,484,124
Non-current Assets		
Receivables	-	4,116,877
Biological assets	1,488,191	1,665,921
Deferred tax assets	2,314,379	3,078,463
Property, plant and equipment	9,145,410	7,485,468
Intangible assets	286,216	-
Total Non-current Assets	13,234,196	16,346,729
TOTAL ASSETS	30,788,921	43,830,853
Current Liabilities		
Trade and other payables	1,004,129	5,035,677
Interest bearing borrowings	4,247,506	373,776
Employee benefits	171,113	128,756
Current tax payable	-	4,169,540
Provisions	234,752	2,114,836
Deferred revenue	4,854,968	11,810,562
Other liabilities	90,449	281,788
Total Current Liabilities	10,602,917	23,914,935
Non-current Liabilities		
Interest bearing borrowings	10,116,917	9,729,347
Deferred tax liabilities	-	513,086
Total Non-current Liabilities	10,116,917	10,242,433
TOTAL LIABILITIES	20,719,834	34,157,368
NET ASSETS	10,069,087	9,673,485
Equity		
Issued capital	4,885,484	4,885,484
Retained earnings	5,183,603	4,788,001
TOTAL EQUITY	10,069,087	9,673,485

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 30.

Queensland Paulownia Forests Limited

Condensed Consolidated Interim Statement of Cash Flows For the Half-Year Ended 31 December 2005

	Consolidated	
	2005	2004
	\$	\$
Cash flows from operating activities		
Receipts from clients	7,947,085	7,458,107
Payments to suppliers and employees	(8,455,376)	(5,867,091)
Net cash generated from operations	(508,291)	1,591,016
Interest received	185,954	142,854
Interest paid	(417,918)	(666,740)
Income taxes paid	(4,307,026)	(471,610)
GST paid	(2,322,121)	(336,879)
Net cash (used in)/ provided by operating activities	(7,369,402)	258,641
Cash flows from investing activities		
Payment for property, plant and equipment	(597,734)	(855,509)
Proceeds from sale of plant and equipment	9,000	1,800
Purchase of Kogan Mill	(1,170,034)	-
Net cash used in investing activities	(1,758,768)	(853,709)
Cash flows from financing activities		
Dividends paid	(1,986,080)	(853,040)
Loans sold to third parties	9,099,948	-
Proceeds (repayments) of borrowings	(203,505)	(570,821)
Proceeds from convertible notes	-	3,667,200
Net cash provided by financing activities	6,910,363	2,243,339
Net increase (decrease) in cash held	(2,217,807)	1,648,271
Cash at beginning of period	8,113,021	2,848,167
Cash at end of period	5,895,214	4,496,438

The statement of cashflows is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 30.

Queensland Paulownia Forests Limited**Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 31 December 2005****1. Statement of Significant Accounting Policies**

Queensland Paulownia Forests Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The condensed consolidated interim financial report was authorised for issuance on 16th March 2006.

(a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australia Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS").

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of preparation is different to that of the most recent financial report due to the first time adoption of AIFRS. This report must also be read in conjunction with any public announcements made by Queensland Paulownia Forests Limited during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 14. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP to those reported for those periods under AIFRS.

(b) Basis of Preparation

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as available-for-sale and biological assets.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Queensland Paulownia Forests Limited
Financial Statements
For the half-year ended 31 December 2005

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRS currently in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted (accounting policies) when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006. The entity has elected to early adopt revised accounting standard AASB119 *Employee Entitlements* in these interim financial statements.

Accounting policies that are effective or available for voluntary adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change, and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet as at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS, as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in note 14. The accounting policies are applied throughout the consolidated entity for the purposes of this condensed consolidated interim financial report.

(c) Basis of Consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim report from the date that control commences until the date that control ceases.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial statements.

(d) Foreign Currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

(e) Property Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property plant and equipment.

Leased Assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. The property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Leasehold Premises

Costs associated with "make good" obligations to restore leased premises to conditions similar to that on occupation are added to the cost of the leasehold and amortised over the period of the lease. A liability is recognised for the fair value of the expected restoration costs.

Subsequent Costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:-

- | | |
|--------------------------------|-------------|
| • Leasehold improvements | 10% - 20% |
| • Plant and equipment – owned | 3% - 40% |
| • Plant and equipment – leased | 22.5% - 25% |

Queensland Paulownia Forests Limited**Notes to the Condensed Consolidated Interim Financial Statements**
For the half-year ended 31 December 2005**(f) Intangible Assets***Goodwill**Business Combinations Prior to 1 July 2004*

The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004 (see note 14).

Business Combinations Since 1 July 2004

Business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Other Intangible Assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated lives of intangible assets unless their lives are indefinite. Goodwill and intangible assets with an indefinite useful life are not amortised and are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:-

- Computer software 4 years

(g) Biological Assets

The fair value of standing timber is based on the present value of the net cash flows expected to be generated by the project through to the sale of all rough-sawn timber generated.

Harvested timber is valued at fair value less estimated point-of-sale costs at the date of harvest. Any change in value through to the date of harvest is recognised in the income statement. Once milled, timber inventories are accounted for as normal inventories.

(h) Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses.

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Biological assets related to agricultural activity and agricultural produce at the point of harvest are measured at fair value less cost to sell.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment

The carrying amounts of the consolidated entity's assets, other than biological assets, inventories, and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset of its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Any excess recognised through the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of Recoverable Amount

The recoverable amount of the consolidated entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not belong to a cash-generating unit to which the asset belongs.

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

Reversals of Impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Dividends

Dividends payable to holders of ordinary shares are recognised as a liability in the period in which they are declared.

(m) Convertible Notes

The Convertible Notes of \$1.00 each issued by the Company pursuant to the prospectus dated 3 December 2003 are only potentially convertible to ordinary shares if the Company lists on a recognised Stock Exchange prior to 30 June 2009. If such a listing does not occur the Notes are redeemable for \$1.20 cash on 30 June 2009. As there is no certainty that some or all of the Notes will be converted to shares the Notes are currently treated as

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Employee Benefits

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Non-accumulating benefits such as motor vehicles are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

Queensland Paulownia Forests Limited**Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 31 December 2005*****Long-term service benefits***

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate is the yield at the balance date on government bonds that have maturity dates approximating to the terms of the consolidated entity's obligations.

Superannuation Contributions

All superannuation obligations are satisfied by the payment of contributions to external funds as chosen by the employees. All such contributions are recognised as an expense in the income statement as incurred.

(p) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its

(q) Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due. The Company's principal source of revenue is from the provision of services to investors to enable them to carry on the business of commercially growing hardwood trees. These services include the establishment of appropriately managed schemes, land and infrastructure preparation and the acquisition/propagation and planting of seedlings. The provision of these services takes place over approximately 18 months, and the up-front establishment fees are recognised as revenue in proportion to the percentage of work completed at the balance date.

(r) Expenses

straight-line basis over the term of the lease. Any lease incentives received or provisions for make-good obligations are recognised in the income statement as an integral part of the total lease expense.

Queensland Paulownia Forests Limited**Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended 31 December 2005*****Finance Lease Payments***

Minimum lease payments are amortised by an amount for each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net Financing Costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method less interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(s) Income Tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(u) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

AIFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

(v) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

	2005	2004
	\$	\$
Sale of goods		
Seedlings and super-roots	-	8,809
Timber	481,966	-
Total	<u>481,966</u>	<u>8,809</u>
Rendering of services		
Plantation establishment fees	6,954,048	1,470,193
Plantation management and licence fees	1,828,755	1,617,687
Other services	377,966	742,868
Total revenue	<u>9,902,430</u>	<u>3,522,704</u>

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

3. Expenses

	2005 \$	2004 \$
Profit has been arrived at after charging the The following items:-		
Employee benefits expense	1,759,733	1,035,650
Depreciation and amortisation expense	323,298	218,535
Debts written off	1,364,372	(439)

Included in debts written off for the half-year ended 31 December 2005 is a reduction of \$1.5 million (less GST recoverable) in the amount receivable in respect of woodlots sold in prior periods.

4. Segment Information

Throughout the half-year period Queensland Paulownia Forests Limited has operated principally in one industry and geographical segment being plantation and management of Paulownia woodlots in Australia.

5. Seasonality of Operations

The major source of revenue for the consolidated entity is fees for the establishment of timber plantations, and the nature of the business is such that a substantial portion of these fees are brought to account in June each year. The first half of the financial year therefore typically results in lower revenues than in the six months to 30 June.

The following table presents selected results of the consolidated entity for the 12 months ended 31 December:-

	2005 \$	2004 \$
Revenue		
6 months to 30 June	19,845,358	5,149,796
6 months to 31 December	9,902,430	3,575,978
12 months to 31 December	<u>29,747,788</u>	<u>8,725,774</u>
Profit for the period		
6 months to 30 June	5,778,708	1,729,005
6 months to 31 December	395,602	(1,624,567)
12 months to 31 December	<u>6,174,310</u>	<u>104,438</u>
Earnings per share		
6 months to 30 June	24.01 cents	8.11 cents
6 months to 31 December	1.59 cents	(7.62) cents
12 months to 31 December	<u>25.25 cents</u>	<u>0.49 cents</u>

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

6. *Business Combinations*

Acquisition of Kogan Mill

On 31 August 2005 the consolidated entity acquired a sawmill business at Kogan in south-east Queensland. Wholly owned subsidiary, QPFL Milling Pty Ltd acquired the freehold property at a cost of \$418,092, and another wholly owned subsidiary, QPFL Contract

Services Pty Ltd acquired the business assets at a cost of \$854,248. The consolidated entity effectively owns and controls 100% of the business known as Kogan Mill.

The amounts recognised at the acquisition date of the assets and liabilities of the business acquired are as follows:-

	A \$
Freehold land and buildings	418,092
Plant and equipment	555,872
Inventories	45,000
Employee provisions	(32,840)
Goodwill on acquisition	<u>286,216</u>
	<u>1,272,340</u>

Goodwill on acquisition represents the excess of the amounts paid for the business as an operational going concern over the value of the individual assets and liabilities acquired.

During the period 31 August 2005 to 31 December 2005 Kogan Mill generated a loss after tax of \$46,247, attributable to shareholders of the consolidated entity.

Had the business been acquired at the start of the reporting period, it is estimated that the consolidated entity would have generated revenue for the period of \$788 000 and the loss

7. *Income Taxes*

Current Tax

Current tax expense for interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

Deferred Tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average

The primary component of the entity's recognised deferred tax assets is the amendment to the tax payable for the year ended 30 June 2005 as a result in the change in method of accounting for establishment fees. As shown in note 14(b), this change in accounting policy has resulted in an additional \$2,998,488 in deferred tax assets. This asset will be realised when the company lodges its 2006 tax return. Deferred tax assets also include temporary differences related to employee benefits, accrued expenses, property plant and equipment and provisions.

The primary components of the entity's deferred tax liabilities include temporary differences related to biological assets and prepayments.

Deferred tax liabilities have been netted off against deferred tax assets in the balance sheet as at 31 December 2005. The net deferred tax asset for 31 December 2005 has not been netted off, in order to facilitate the understanding of AIFRS adjustments shown in note 14

8. *Property Plant and Equipment*

Acquisitions and Disposals

During the six months ended 31 December 2005, the consolidated entity acquired assets with a cost of \$2,179,352 (six months ended 31 December 2004: \$1,123,252), including assets acquired through business combinations (see note 6) of \$1,085,922 (six months ended 31 December 2004: \$nil). Assets with a net book value of \$9,777 were disposed of during the six months ended 31 December 2005 (six months ended 31 December 2004: \$976). No assets were disposed of through sale of discontinued operations.

Impairment Loss

The consolidated entity assesses the recoverable amount of all significant items of plant and equipment for impairment. Assets were reassessed for impairment at 30 June 2004 for the purposes of transition to AIFRS, and the carrying cost of certain items of plant and equipment was written down by \$25,960 as at that date. No further write-downs for impairment have been required since that date.

Capital Commitments

During the six months ended 31 December 2005, the consolidated entity entered into two contracts to purchase additional land and associated water rights at Forbes for the purposes of plantation establishment. The properties cost \$467,272 and \$630,000 respectively, with settlement scheduled for 31 January 2006 and 21 April 2006.

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

9. Capital and Reserves

Dividends

The following dividends were paid by the consolidated entity during the period:-

	2005	2004
8 cents per ordinary share paid on 18 July 2005	1,986,080	-
4 cents per ordinary share paid on 14 July 2004	-	853,040

10. Earnings per Share

Basic Earnings Per Share

The calculation of basic earnings per share for the six months ended 31 December 2005 was based on the profit attributable to shareholders of \$395,602 (six months ended 31 December 2004: loss of \$1,624,567) and a weighted average number of ordinary shares on issue during the six months ended 31 December 2005 of 24,825,995 (six months ended 31 December 2004: 21,325,995), calculated as follows:-

	2005	2004
Profit (loss) attributable to ordinary shareholders	395,602	(1,624,567)

Weighted average number of ordinary shares for the six months ended 31 December

Balance at 1 July (184 days)	24,825,995	21,325,995
Shares issued	nil	nil
Weighted average shares on issue for period	<u>24,825,995</u>	<u>21,325,995</u>
Basic earnings per share	1.59 cents	(7.62) cents

Diluted Earnings Per Share

The calculation of diluted earnings per share for the six months ended 31 December 2005 was based on adjusted profit attributable to ordinary shareholders of \$849,005 (six months ended 31 December 2004: loss of \$1,261,132) and diluted weighted average number of ordinary shares on issue during the six months ended 31 December 2005 of 24,825,995 (six months ended 31 December 2004: 36,942,551), calculated as follows:-

	2005	2004
Profit (loss) attributable to ordinary shareholders	395,602	(1,624,567)
After-tax effect of interest on convertible notes	<u>412,403</u>	<u>363,435</u>

Queensland Paulownia Forests Limited

Profit attributable to ordinary shareholders (diluted) 808,005 (1,261,132)

Notes to the Condensed Consolidated Interim Financial Statements

For the half-year ended 31 December 2005

Weighted average number of ordinary shares (diluted)
for the six months ended 31 December

Weighted average number of ordinary shares at 31 December (undiluted)	24,825,995	21,325,995
Effect of conversion of convertible notes	<u>19,636,364</u>	<u>15,616,556</u>
Weighted average number of ordinary shares at 31 December (diluted)	<u>44,462,359</u>	<u>36,942,551</u>
Diluted earnings per share	1.62 cents	(3.41) cents

In calculating the effect of conversion of convertible notes to ordinary shares a market value of \$0.55 per share has been utilised. This is the price at which the last issue of shares was made.

11. Interest-bearing Loans and Borrowings

Convertible Notes

	2005	2004
Carrying value at 1 July	9,452,514	5,658,800
Proceeds from issue of notes	-	3,341,200
Accreted interest capitalised	<u>168,116</u>	<u>284,397</u>
Carrying value at 31 December	<u>9,620,630</u>	<u>9,284,397</u>

9 million Convertible Notes of \$1.00 each were issued in accordance with a Prospectus dated 3 December 2003. These Notes are listed on the Bendigo Stock Exchange. The Notes are redeemable on 31 June 2009 at a price of \$1.20 or the Noteholders should 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.

12. Financial Instruments

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:-

Interest-bearing loans receivable

Queensland Paulownia Forests Limited

Fair value is calculated based on discounted expected future principal and interest cash flows.

Notes to the Condensed Consolidated Interim Financial Statements **For the half-year ended 31 December 2005**

Convertible Notes

Fair value on initial recognition of convertible notes issued by the consolidated entity approximates to face value as the coupon rate of 9.28% per annum is deemed to be an appropriate market rate for this type of debt instrument.

Finance Lease Liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates.

Trade and Other Receivables / Payables

For receivables / payables expected to be settled in the short term, the notional amount is deemed to reflect fair value. All other receivables / payables are discounted to determine the fair value.

Interest Rates Used For Determining Fair Value

Amounts receivable in respect of interest free growers loans discounted to a third party financier, and amounts receivable from underwriters have been discounted at 11.25% per annum.

13. Related Party Transaction

A guarantee fee of \$71,696 was paid to David Michael Gold during the period. This fee related to a \$500,000 personal guarantee provided by Mr Gold to the lessor of the company's Queensland plantations for the period 29 June 2001 to 31 October 2005.

14. Explanation of Transition to AIFRS

As stated in note 1(a), these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRS.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

Queensland Paulownia Forests Limited**Notes to the Condensed Consolidated Interim Financial Statements**
For the half-year ended 31 December 2005

An explanation of how the transition from previous GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The consolidated entity has elected to not apply the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to not restate comparative information for AASB 132 and AASB 139.

Queensland Paulownia Forests Limited

14. Explanation of Transition to AIFRS (continued)

Reconciliation of equity

	Note	1 July 2004	Previous GAAP	Effect of transition to AIFRS	31 Dec 2004	Previous GAAP	Effect of transition to AIFRS	31 Dec 2004	30 June 2006	Previous GAAP	Effect of transition to AIFRS	30 June 2006
Current Assets												
Cash and cash equivalents		2,848,167		2,848,167		4,496,438		4,496,438		8,113,021		8,113,021
Trade and other receivables	(d)	5,066,901		5,066,901		986,167		986,167		17,300,243		17,300,243
Inventories		219,615		219,615		206,418		206,418		156,468		156,468
Other financial assets										783,006		783,006
Other assets		245,233		245,233		606,792		606,792		1,181,837		1,181,837
Total Current Assets		8,369,916		8,369,916		6,304,815		6,304,815		27,536,575		27,536,575
Non-current Assets												
Trade and other receivables		100,805		100,805		106,998		106,998		4,116,877		4,116,877
Biological assets	(a)&(b)	4,733,690		4,733,690		4,655,360		4,655,360		1,065,921		1,065,921
Deferred tax assets				591,449				186,794				3,078,463
Property, plant and equipment	(c)	5,147,219		5,147,219		6,180,187		6,180,187		7,511,428		7,511,428
Intangible assets		175,668		175,668								(25,960)
Total Non-current Assets		10,157,582		10,157,582		10,924,565		10,924,565		13,294,226		13,294,226
TOTAL ASSETS		18,527,498		18,527,498		17,229,380		17,229,380		40,830,801		40,830,801
Current Liabilities												
Trade and other payables		1,136,734		1,136,734		825,823		825,823		5,164,433		5,164,433
Short term borrowings		586,026		586,026		192,876		192,876		373,776		373,776
Current tax payable		228,986		228,986						4,166,540		4,166,540
Provisions		636,070		636,070		76,841		76,841		2,114,836		2,114,836
Other liabilities	(b)	1,350,092		1,350,092		1,556,134		1,556,134		2,087,381		2,087,381
Total Current Liabilities		4,238,907		4,238,907		2,654,574		2,654,574		13,919,976		13,919,976
Non-current Liabilities												
Long term borrowings	(a)	5,751,662		5,751,662		9,484,072		9,484,072		9,726,347		9,726,347
Deferred tax liabilities		1,627,472		1,627,472		709,707		709,707		545,720		545,720
Total Non-current Liabilities		7,379,134		7,379,134		10,203,779		10,203,779		10,272,067		10,272,067
TOTAL LIABILITIES		11,618,041		11,618,041		12,858,353		12,858,353		24,196,043		24,196,043
NET ASSETS		6,909,457		6,909,457		4,371,027		4,371,027		16,635,758		16,635,758
Equity												
Share Capital	(a)	2,920,253		2,920,253		2,920,253		2,920,253		4,845,253		4,845,253
Other reserves	(f)	3,989,202		3,989,202		1,450,774		1,450,774		11,790,505		11,790,505
Retained earnings												(7,002,504)
TOTAL EQUITY		6,909,455		6,909,455		4,371,027		4,371,027		16,635,758		16,635,758

Queensland Paulownia Forests Limited

14 Explanation of Transition to AIFRS (continued)
Reconciliation of Profit

	Note	Previous GAAP	Effect of transition to AIFRS For the six months ended 31 Dec 2004	AIFRS	Previous GAAP	Effect of transition to AIFRS For the year ended 30 June 2005	AIFRS
Revenue	(b)	2,270,483	1,305,515	3,575,978	31,531,775	(8,110,439)	23,421,336
Net increment (write down) in market value of Paulownia trees		(78,310)	-	(78,310)	(3,087,789)	-	(3,087,789)
Total revenue		2,192,173	1,305,515	3,497,668	28,444,006	(8,110,439)	20,333,567
Changes in inventories		(125,598)	-	(125,598)	(77,648)	-	(77,648)
Raw materials and consumables used		(328,406)	-	(328,406)	(856,861)	-	(856,861)
Employee expenses		(1,035,650)	-	(1,035,650)	(2,141,845)	-	(2,141,845)
Other operating expenses		(3,332,644)	-	(3,332,644)	(10,181,049)	-	(10,181,049)
Operating profit (loss) before financing costs		(2,528,147)	1,305,515	(1,222,632)	19,204,583	(8,110,439)	7,094,144
Financial income		-	-	-	-	-	-
Financial expenses	(d)	(842,336)	-	(842,336)	(1,285,719)	(52,451)	(1,338,170)
Net financing costs		(842,336)	-	(842,336)	(1,285,719)	(52,451)	(1,338,170)
Profit (Loss) before tax		(3,470,483)	1,305,515	(2,164,968)	13,918,864	(8,162,890)	5,755,974
Income tax benefit (expense)	(a)&(b)	932,055	(391,864)	540,191	(4,131,481)	2,529,648	(1,601,833)
Profit (Loss) for the period		(2,538,428)	913,651	(1,624,777)	9,787,383	(5,633,242)	4,154,141
Attributable to:							
Equity holders of the parent		(2,538,428)	913,651	(1,624,777)	9,787,383	(5,633,242)	4,154,141
Profit (Loss) for the period		(2,538,428)	913,651	(1,624,777)	9,787,383	(5,633,242)	4,154,141
Basic earnings per share (cents)		(11.90)	-	(7.82)	14.87	-	18.31
Diluted earnings per share (cents)		(8.20)	-	(5.41)	8.36	-	12.42

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

Notes to the reconciliation of equity

- (a) AASB 112 "Income Taxes" requires that deferred tax shall be credited directly to equity if the tax effect relates to items that have been charged directly to equity. Under the previous GAAP, the tax benefit related to deductible share issue costs was recognised in tax expense. The resulting adjustment has increased share capital by \$40,231 at 1 July 2004, 31 December 2004 and 30 June 2005, increased deferred tax assets by \$16,903 at 1 July 2004 and 31 December 2004, and by \$8,047 at 30 June 2005, and decreased retained earnings by \$24,137 at 1 July 2004 and 31 December 2004 and by \$32,185 at 30 June 2005.
- (b) In accordance with AASB 118 "Revenue", fees from the provision of plantation establishment services is now recognised in proportion to the percentage of work completed on the provision of that service at balance date. Under the previous GAAP establishment fees were recognised when the license to use a woodlot was issued to the grower. This has resulted in the deferral of revenues that would previously have been recognised as income. The effect in the consolidated entity is to increase deferred revenue by \$1,884,520 at 1 July 2004, by \$579,005 at 31 December 2004 and by \$9,994,959 at 30 June 2005. Deferred tax assets have been increased by \$565,356 at 1 July 2004, by \$173,701 at 31 December 2004, and by \$2,998,488 at 30 June 2005.
- These changes have also resulted in an increase in revenue of \$1,305,515 for the six months ended 31 December 2004, and a decrease in revenues for the year to 30 June 2005 of \$8,110,439. Tax expense was reduced by \$391,654 for the six months to 31 December 2004 and by \$2,433,132 for the year to 30 June 2005.
- (c) In accordance with AASB116 the consolidated entity is required to assess property, plant and equipment for impairment at the transition date. The effect in the consolidated entity is to decrease Property, Plant and Equipment at 1 July 2004, 31 December 2004 and 30 June 2005 by \$25,960, and to decrease retained earnings by the same amounts.
- (d) AASB 139 "Financial Instruments: Recognition and Measurement" requires interest free and low interest loans receivable to be initially recognised at fair value. The amounts receivable from loans to Growers at 30 June 2005 has therefore been decreased by \$52,451 to reflect fair value at that date.
- (e) The above changes increased (decreased) the tax balances as follows:-

	Note	1 Jul 2004	31Dec 2004	30 Jun 2005
		\$	\$	\$
Deferred Tax Asset				
Deductible share issue costs	(a)	16,093	16,093	8,047
Deferred revenue	(b)	565,356	173,701	2,998,488
Temporary tax differences		-	-	71,928
Increase in Deferred Tax Asset		581,449	189,794	3,078,463
Deferred Tax Liability				
Temporary tax differences		-	-	(32,634)
Decrease in Deferred Tax Liability		-	-	(32,634)

Queensland Paulownia Forests Limited

Notes to the Condensed Consolidated Interim Financial Statements For the half-year ended 31 December 2005

- (f) The effect of the above adjustments on retained earnings is as follows:-

	Note	1 Jul 2004 \$	31Dec 2004 \$	30 Jun 2005 \$
Trade and other receivables	(d)	-	-	(52,451)
Deductible share issue costs	(a)	(24,138)	(24,138)	(32,184)
Deferred revenue	(b)	(1,319,164)	(405,304)	(6,996,471)
Property, plant & equipment	(c)	(25,960)	(25,960)	(25,960)
Deferred tax	(e)	-	-	104,562
Total adjustment attributable to shareholders		(1,369,262)	(455,402)	(7,002,504)

15. Fundamental Error at 30 June 2004

The GAAP opening balance sheet at 1 July 2004 in note 14 above differs from the balance sheet as originally reported for the year ended 30 June 2004, due to the fundamental error subsequently reported in the financial statements for the half-year to 31 December 2004 and year to 30 June 2005.

At 30 June 2004, the consolidated entity 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.

These contractual conditions had not been satisfied as at 30 June 2004 therefore the directors considered there was a fundamental error in the preparation of the 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. These errors have all been eliminated for the purposes of the reconciliation of equity in note 14.

16. Contingent Liabilities

The company granted a put option to an external financier in relation to growers loans sold in 2003 which may require the company to purchase, at 75% of the principal outstanding, loans that fall more than 120 days in arrears. The maximum contingent liability at balance date is \$271,906. In the event that the company was required to repurchase these loans it would have the right to resume the borrowers' woodlots and bring them to account as a biological asset. This value is considered to be greater than the contingent liability. To date no defaults have triggered the exercise of the put option.

Queensland Paulownia Forests Limited**Notes to the Condensed Consolidated Interim Financial Statements**
For the half-year ended 31 December 2005**17. Events Subsequent to Balance Date**

On 3 March 2006 the consolidated entity entered into a Settlement Agreement regarding contractual obligations associated with underwriting arrangements previously entered into. As part of the Settlement Agreement, the underwriter was released from its obligation to underwrite sales of units in the managed schemes for the 2005/06 financial year.

The underwriter's remuneration for 2005/06 was settled by way of an issue of ordinary shares in the Company at 31 March 2005, and the Condensed Consolidated Interim Balance Sheet at 31 December 2005 contains a prepayment of \$641,667 for underwriting services for 2005/06. It has been agreed with the underwriter that upon completion of planting of all of the woodlots created as a result of prior years underwritten sales 1,166,667 ordinary shares currently held by the underwriter will be foregone by them in consideration of the proposed underwriting fees.

Queensland Paulownia Forests Limited**Directors' Declaration**

In the opinion of the directors of Queensland Paulownia Forests Limited, ("the company"):

- 1 the financial statements and notes set out on pages 6 to 30, are in accordance with the Corporations Act 2001 including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - b) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- 2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a Resolution of the Directors made at Surfers Paradise on this 16th day of March 2006.



Elizabeth Hutchinson
Director

Independent Review Report to the Members of Queensland Paulownia Forests Limited

Scope

The financial report and directors' responsibility

The financial report comprises the condensed interim statements of income, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 6 to 31 for the Queensland Paulownia Forests Limited consolidated entity (the "consolidated entity") for the half-year ended 31 December 2005. The consolidated entity comprises Queensland Paulownia Forests Limited ("the company") and the entities it controlled during that half-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. The directors are also responsible for preparing the relevant reconciling information regarding adjustment required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not

performed an audit and, accordingly, we do not express an audit opinion. A review cannot guarantee that all material misstatements have been detected.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Queensland Paulownia Forests Limited is not in accordance with:

(a) the Corporations Act 2001, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
- ii. complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

Stephen Board
Partner

Place: Gold Coast

Date: 16 March 2006