Queensland Paulownia Forests Limited
and its controlled entities
ABN 49 071 625 477

Annual Financial Report
30 June 2006

Contents

Queensland Paulownia Forests Limited and its controlled entities
Directors' report
For the year ended 30 June 2006

The directors present their report together with the financial report of Queensland Paulownia Forests Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2006 and the auditor's report thereon.

1. Directors

The directors of the company at any time during or since the end of the financial year are:

David M Gold	**Chairman**
Experience	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.
Special Responsibilities	Responsible for strategic planning.
W Stephen van der Mye	**Managing Director and Deputy Chairman**
Qualifications	Doctor of Philosophy Bachelor of Commerce Fellow of the Australian Institute of Company Directors Fellow of the Australian Institute of Management Fellow of the Australian Society of Certified Practising Accountants Fellow of the Chartered Institute of Secretaries Fellow of the Financial Services Institute of Australasia
Experience	Board member since October 2005. Extensive experience as chief executive of substantial organisations in the finance, agribusiness and energy sectors, and has held numerous board appointments with public companies and statutory authorities.
Special Responsibilities	Day to day management and leadership of the group's operations.
Board Committees	Nomination and Remuneration
Elizabeth Hutchinson	**Executive Director – Administration and Compliance**
Qualifications	Associate of the Institute of Chartered Accountants in New Zealand
Experience	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.
Special Responsibilities	Responsibilities include finance, taxation, compliance, risk and insurance management and company secretarial.
Board Committees	Audit and Risk Nomination and Remuneration

1. Directors (continued)

Graham J Fayle	**Executive Director – Farming and Plantation Management**
Qualifications	Bachelor of Arts and Post Graduate Diploma in Farm Management
Experience	Board member since September 2001. Acted as Plantation Operations Manager from 1998 to 2006. He has 30 years experience in agriculture in Australia and overseas at both operational and board level.
Special Responsibilities	Responsible for the efficient operations of the Company's plantations and land selection
Leon Lewandowski	**Non-executive Director**
Qualifications	Bachelor of Business in Accountancy Associate of the Australian Society of Certified Practising Accountants Associate of the Institute of Corporate Managers, Chartered Secretaries and Administrators
Experience	Board member since August 1999. Corporate and management expertise, with significant experience with managed investment projects.
Special Responsibilities	Independent financial and risk management advice. Company secretarial.
Board Committees	Audit and Risk Compliance Nomination and Remuneration

2. Company Secretary

Elizabeth Hutchinson and Leon Lewandowski are joint Company secretaries.

Mr Lewandowski CPA, AICMCSA was appointed to the position of company secretary on 25 September 2001, and has 15 years experience in company secretarial matters.

Mrs Hutchinson was appointed to the position of company secretary on 25 September 2001, and has 20 years experience in company secretarial matters.

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit & Risk Committee Meetings		Compliance Committee Meetings		Nomination & Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B
D M Gold	12	12						
W S van der Mye	9	9	1	1			-	-
E Hutchinson	11	12	2	2			-	-
G J Fayle	12	12						
L Lewandowski	12	12	2	2	4	4	-	-

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

4. Corporate governance statement

4.1 Board of directors

Role of the board
The board's primary role is the protection and enhancement of long-term shareholder value through the provision of sound strategic guidance and effective oversight of management.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring major investments and strategic commitments, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and the maintenance of robust risk management and compliance processes.

It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the Company to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Board processes
To assist in the execution of its responsibilities, the board has established a number of board committees including an Audit and Risk Committee, a Compliance Committee, a Custodial Committee and a Nomination and Remuneration Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds 12 scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared by the Managing Director in conjunction with the Chairman. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Meeting papers are circulated at least a week in advance.

Director education
The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. New directors will be provided with details of the group's strategic plans, its significant accounting, financial and risk management issues, compliance programs, management structure and its Code of Conduct. Directors also have the opportunity to visit major locations and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information
Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Composition of the board
The names of the directors of the Company in office at the date of this report are set out in the Directors' report on pages 3 and 4 of this report.

The Board comprises directors with a broad range of expertise, skills and experience from a diverse range of backgrounds in order for the Company to fulfil its goals and responsibilities.

The Board is to consist of at least 3 directors at all times.

The Chairman is elected by the Board.

A director is considered to be independent for the purposes of service on the Board or Board committees if the director satisfies the standards adopted by the Board from time-to-time. The fundamental premise of the standards is that an independent director must be independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of his or her unfettered and independent judgement. Directors are required to bring forward all relevant information to allow a regular assessment of independence.

4.2 Audit and Risk Committee
The audit committee has a documented charter, approved by the board. This Charter sets-out the authority, functions, membership, operations and responsibilities of the Committee. The Charter is reviewed annually by the members of the Committee to ensure it remains consistent with the Committee's role. Changes to the Charter are recommended by the Committee to the Board for approval.

4.2 Audit and Risk Committee (continued)

The role of the Committee is to assist the Board in carrying out its corporate governance and oversight responsibilities in so far as they relate to accounting and financial reporting processes; external and internal audit functions; internal control structures and risk management systems; and legal and regulatory compliance.

The members of the Audit and Risk Committee during the year were:

Elizabeth Hutchinson – Chairman
Leon Lewandowski

The external auditors and the Chief Financial Officer are invited to Audit and Risk Committee meetings at the discretion of the Committee. The committee met 2 times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 5.

The Managing Director and the Chief Financial Officer declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended 30 June 2006 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The external auditor met with the Audit and Risk Committee 2 times during the year.

The responsibilities of the Audit and Risk Committee include:

- Reviewing the annual and half-year financial reports and other information distributed externally, and assessing whether the financial information is adequate for shareholder needs;
- Reviewing any new accounting policies, ensuring compliance with Australian Equivalents to International Reporting Standards (AIFRS);
- Appointment of the external auditors, and agreeing the nature and scope of the services to be performed in order to ensure all legislative and licensing requirements are adequately met;
- Determining whether the provision of non-audit services by the external auditor is compatible with the general standard of independences of auditors imposed by the Corporations Act 2001;
- Reviewing the identification, assessment and management of the material risks faced by the various business units of the consolidated entity;
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- Addressing any significant matters raised by the internal and external auditors, the Australian Taxation Office, Australian Securities and Investments Commission and the Bendigo Stock Exchange Limited.

4.3 Compliance Committee

Purpose

As the Responsible Entity of Managed Investment Schemes the company is required to have a Compliance Committee in order to meet its obligations under the Corporations Act 2001 in respect of the schemes under management.

The principal functions of the Compliance Committee, as specified in section 601JC of the Corporations Act 2001, are as follows:-

(a) to monitor to what extent the Responsible Entity complies with the Project's Compliance Plan and to report on its findings to the Responsible Entity: and
(b) to report to the Responsible Entity :
  (i) any breach of the Act involving the scheme; or
  (ii) any breach of the provisions included in the scheme's Constitution;
(c) to report to ASIC if the Responsible Entity does not take appropriate remedial action in the case of a breach;
(d) to assess the adequacy of the Compliance Plan.

Committee Composition

The membership of the Committee is determined by the Board and shall consist of not less than two external members whose skills are deemed to add value. Each member shall be assessed as being independent from any business or other relationship that, in the opinion of the Board, would materially interfere with the exercise of his/her judgment as a member of the Committee.

The Compliance Committee throughout the financial year ended 30 June 2006 comprised:-

Graham McClymont (Chairman)	- External appointment, Agricultural and business advisor
Alex Fraser	- External appointment, Accountant and business advisor
Leon Lewandowski	- Non-executive director, Accountant and business advisor

It is appropriate that members of the Committee have a range of different back-grounds, skills and experiences having regard to the business, financial and strategic risk profile of the Company. All members must be financially literate with at least one member having recognised accounting and financial expertise.

4.4 Nomination and Remuneration Committee

The role of the Committee is to assist the Board in carrying out its corporate governance and oversight responsibilities in so far as they relate to Board composition and performance, overall remuneration and the individual remuneration packages of the Managing Director, and as appropriate other senior executives.

The membership of the Committee is determined by the Board and shall consist of not less than three directors, and may include additional external members whose skills are deemed to add value. Each member shall be assessed as being independent from any business or other relationship that, in the opinion of the Board, would materially interfere with the exercise of his/her judgement as a member of the Committee.

The Nomination and Remuneration Committee comprised the following members during the year:

- Leon Lewandowski – Chairman - Non-Executive
- Walter Stephen van der Mye – Executive
- Elizabeth Hutchinson – Executive

4.4 Nomination and Remuneration Committee (Continued)

The board policy is that over time the Nomination and Remuneration Committee will comprise entirely of independent non-executive directors. At present, membership of the Committee comprises a Non Executive Director and two Executive Directors, with the former acting as Chairman. The Managing Director does not attend meetings involving matters pertaining to him.

The Nomination and Remuneration Committee meets annually unless otherwise required. For the year ended 30 June 2006, the Committee did not meet as it was only formed in the fourth quarter of the year.

The Nomination and Remuneration Committee oversees the appointment and induction process for directors and Committee members, and the selection, appointment and succession planning process of the Company's Managing Director and senior executives. The Committee makes recommendations to the board on the appropriate skill mix, personal qualities, expertise and diversity of each position.

When a board vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates with advice from an external consultant. The board then appoints the most suitable candidate.

The Nomination and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executive officers and directors themselves of the Company and of other group executives for the consolidated entity. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

4.5 Remuneration report

4.5.1 Remuneration policies

Overview of remuneration policies

Remuneration levels for directors, secretaries, senior managers of the Company, and relevant group executives of the consolidated entity ("the directors and senior executives") are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

Remuneration packages include a mix of fixed and variable remuneration. In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel, and contributes to their nominated superannuation plans.

Overview of performance-linked remuneration

Performance linked remuneration is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives set by the company. Levels of performance linked remuneration are determined annually by the Board based on the performance of the consolidated entity and the individual.

4.5 Remuneration report (continued)

Consequences of performance on shareholders wealth

In considering the consolidated entity's performance and benefits for shareholders wealth, the Board has regard to the following indices in respect of the current financial year and the previous four financial years:-

	2006 $000s (1)	**2005 $000's (1)**	**2004 $000's (2)**	**2003 $000's (2)**	**2002 $000's (2)**
Net profit/(loss) attributable to equity holder of the parent	($4,198)	$4,154	$904	$2,123	$1,312
Dividends paid	Nil	8 cents	4 cents	2 cents	1.5 cents
Earnings per share (basic)	(16.91c)	18.31 cents	4.24 cents	9.95 cents	6.16 cents
Return on equity	(55.4%)	54.5%	13.1%	35.4%	45.8%

(1) Prepared in accordance with AIFRS
(2) Prepared in accordance with previous GAAP.

Change in share price has not been reported as the shares are not traded on a recognised market.

Currently, the performance-linked component of remuneration comprises approximately 18% of total payments to executive directors and senior executives.

Other benefits

Directors and senior executives can receive additional benefits as part of the terms and conditions of their appointment. The level of such benefits is taken into account when determining the fixed remuneration levels. The only material non-monetary benefits provided to directors and senior executives during the financial year related to motor vehicles and accommodation.

Service contract details

All directors and senior executives of the consolidated entity are employed or contracted by the Company. The terms of the various service contracts and employment agreements vary depending on the nature and role of the person concerned.

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For the year ended 30 June 2006

4.5 Remuneration Report (continued)

The following tables summarise the key components of the various contracts for directors and other senior executives.

Service contracts

	Term of contract	Notice required from director /executive	Notice required from Company	Termination Entitlement
Directors				
D M Gold (Executive Chairman)	Unspecified	3 months	3 months in the event of unsatisfactory performance	None
W S van der Mye (Managing Director and Deputy Chairman)	3 years	3 months	6 months in the event of unsatisfactory performance	3 months during 12 month probationary period, 6 months thereafter
E Hutchinson (Executive Director – Administration & Compliance)	12 months	30 days	Remainder of term of contract	Remainder of term of contract
G J Fayle (Executive Director – Farming & Plantation Management)	12 months	30 days	Remainder of term of contract	Remainder of term of contract
L Lewandowski Non-executive Director	No Contract			
Specified Executives				
G J Waldron (Chief Financial Officer)	Unspecified	3 months	6 months in first year and 3 months thereafter	6 months in first year and 3 months thereafter
D S Durham (General Counsel and Chief Compliance Officer)	Unspecified	3 months	6 months in first year and 3 months thereafter	6 months in first year and 3 months thereafter
P D Wright (Forestry Operations Manager)	Unspecified	12 weeks	12 weeks	None

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Directors' report (continued)
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4.5 Remuneration report (continued)

Details of the nature and amount of remuneration of directors and senior executives are as follows:

		Short-term				*Post-employment*					*Share-based payments*		
	In AUD	*Salary & fees $*	*STI cash bonus $(A)*	*Non-monetary benefits $*	*Total*	*Super-annuation benefits $*	*Retire-ment benefits $*	*Total $*	*Other long term $*	*Termin-ation benefits*	*Value of options) $*	*Total $*	*S300A (1)(e)(i) Proportion of remuneration performance related %*
Directors													
D M Gold (Executive Chairman)	2006	148,056	105,000	23,315	276,371	13,325	Nil	13,325	Nil	Nil	Nil	289,696	36%
	2005	120,000	Nil	19,197	139,197	10,800	Nil	10,800	Nil	Nil	Nil	149,997	0%
W S van der Mye (Non-executive Director) (From 3 October 2005 to 7 February 2006)	2006	25,000	Nil	Nil	25,000	1,350	Nil	1,350	Nil	Nil	Nil	26,350	0%
W S van der Mye (Managing Director) (Appointed 8 February 2006)	2006	101,994	Nil	8,613	110,607	9,179	Nil	9,179	Nil	Nil	Nil	119,786	0%
	2006	**126,994**	Nil	**8,613**	135,607	10,529	Nil	10,529	Nil	Nil	Nil	146,136	0%
E Hutchinson (Executive Director)	2006	109,872	105,000	18,878	233,750	Nil	Nil	Nil	Nil	Nil	Nil	233,750	40%
	2005	148,942	Nil	21,215	170,157	Nil	Nil	Nil	Nil	Nil	Nil	170,157	0%
G J Fayle (Executive Director)	2006	133,416	Nil	1,578	134,994	Nil	Nil	Nil	Nil	Nil	Nil	134,994	0%
	2005	172,826	Nil	2,067	174,893	Nil	Nil	Nil	Nil	Nil	Nil	174,893	0%
L Lewandowski (Non-executive Director)	2006	25,000	Nil	Nil	25,000	Nil	Nil	Nil	Nil	Nil	Nil	25,000	0%
	2005	101,653	Nil	Nil	101,653	Nil	Nil	Nil	Nil	Nil	Nil	101,653	0%

The remuneration disclosure has not been rounded to the nearest $1,000.

(A) 100% of the STI cash bonus amounts shown above vested during the year. No amounts vest in future financial years.

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For the year ended 30 June 2006

4.5 Remuneration report (continued)

	In AUD	Short-term				Post-employment			Other long term			
		Salary & fees	STI cash bonus	Non-monetary benefits	Total	Super-annuation benefits	Retirement benefits	Total	Insurance premiums	Termination benefits	Total	S300A (1)(e)(i) Proportion of re-muneration performance related %
		$	$	$	$	$	$	$	$	$	$	
Executives												
G Waldron (Chief Financial Officer) (Commenced 9 January 2006)	2006	86,250	Nil	8,649	94,899	7,763	Nil	7,763	Nil	Nil	102,662	0%
D Durham (General Counsel) (Commenced 30 January 2006)	2006	62,500	Nil	9,070	71,570	5,625	Nil	5,625	Nil	Nil	77,195	0%
P Wright (Manager, Forestry Operations) (Commenced 27 March 2006)	2006	36,561	Nil	2,442	39,003	3,291	Nil	3,291	Nil	Nil	42,294	0%
I Sandeman (Chief Executive Officer) (Commenced 10 January 2005) (Finished 6 February 2006)	2006	120,715	14,000	18,819	153,534	12,407	Nil	12,407	Nil	Nil	165,941	8%
	2005	98,031	Nil	20,653	118,684	8,823	Nil	8,823	Nil	Nil	127,507	0%
Total compensation: key management personnel (Company and consolidated)	2006	869,510	224,000	93,806	1,187,316	54,753	Nil	54,753	Nil	Nil	1,242,069	
	2005	641,452	Nil	63,132	704,584	19,623	Nil	19,623	Nil	Nil	724,207	

The remuneration disclosure has not been rounded to the nearest $1,000.

4.5 Remuneration report (continued)

Notes in relation to the table of directors' and executive officers remuneration

The short-term incentive bonuses paid to DM Gold and E Hutchinson during the year to 30 June 2006 were in respect of the performance of the company during 2004/05, and in particular the substantial growth in woodlots sold during that period. The amount was finally determined after discussion and approval by the Board.

4.6 Risk management

Oversight of the risk management system

The Board's Audit and Risk Committee oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The Managing Director and the Chief Financial Officer have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity, and material associates and joint ventures.

Risk profile

The Audit and Risk Committee reports to the Board quarterly on the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the program.

Risk management and compliance and control

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control is comprehensive, and includes practices to ensure:-

- capital expenditure and revenue commitments above a certain size obtain prior Board approval:
- financial exposures are adequately controlled;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- environmental regulation compliance (see below).

Quality and integrity of personnel

All employees, directors, contractors and consultants are required to comply with the Code of Conduct. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management.

4.6 Risk management (continued)

Financial reporting

The Managing Director and the Chief Financial Officer have declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared if considered necessary.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) has been a key financial reporting project during the year ended 30 June 2006. The board established a formal project to ensure a smooth transition to AIFRS reporting.

Details of the impact of transition from previous Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS on the financial report for the year ended 30 June 2006 is included in Note 37 to the financial statements.

Environmental regulation

The consolidated entity's operations are subject to environmental regulation under both Commonwealth and State legislation.

The consolidated entity is committed to adopting environmentally friendly practices on all of its plantations and workplaces, and has developed a comprehensive environmental management system for this purpose.

The forestry operations carried out by the Company have a major positive impact on the environment by contributing to the reduction in carbon dioxide in the atmosphere.

Directors are not aware of any issues that have arisen during the period from 1 July 2005 to the date of this report that would lead to a contravention of current environmental legislation.

4.7 Ethical standards

The operations of the consolidated entity are driven by its Values, which act as a foundation for the organisation's Vision and Mission. All the Values carry equal weight, and support the requirement that the group's business practices will be conducted ethically and with professionalism to achieve the highest standards of behaviour.

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The board reviews the Code of Conduct regularly and processes are in place to promote and communicate these policies.

4.7 Ethical Standards (continued)

Conflict of Interest

Directors and senior executives must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 33 to the financial statements

Codes of conduct

The consolidated entity has advised each director, manager and employee that they must comply with the QPFL Code of Conduct.

The Directors have made a commitment to best practice corporate governance procedures, and have adopted a Board of Directors Code of Ethical Behaviour based on the code promulgated by the Australian Institute of Company Directors.

There is also a separate Code of Conduct for Finance Officers which covers a wide range of financial and non-financial business practices and procedures that must be adhered to by the consolidated entity's finance and accounting personnel.

Trading in general Company securities by directors and employees

Directors and employees are prohibited from dealing in Company's shares or other securities except in the following circumstances:

- in the 2 months following the release of the Company's half-year and annual results to the Bendigo Stock Exchange ("BSX");
- in the 2 months following the annual general meeting or any major announcement made to the BSX; or
- with the approval of the Board who must be satisfied that the director or employee is not in possession of price sensitive information not yet released to the market.

Notwithstanding the above, no director or employee is permitted to deal in the Company's shares or other securities if he or she is in possession of price sensitive information not yet released to the market.

4.8 Communication with stakeholders

The Board provides stakeholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the BSX, posting them on the Company's website, and issuing media releases.

In summary, the Continuous Disclosure policy operates as follows:

- the Managing Director, the Chief Financial Officer and the Company Secretary are responsible for interpreting the company's policy and where necessary informing the board. The Company Secretary is responsible for all communications with the BSX;

4.8 Communication with Stakeholders (Continued)

- the Annual Report is distributed to all shareholders (unless they have requested not to receive the document), including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;

- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year review financial report is lodged with the Australian Securities and Investments Commission and the BSX, and sent to any shareholder or Convertible Noteholder who requests it;

- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the BSX;

- the external auditor attends the Annual General Meetings to answer questions concerning the conduct of the audit, the preparation and content of the Auditor's Report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

5. Principal activities

The principal activities of the consolidated entity during the course of the financial year were the promotion and sale of managed investments in forestry and the management of paulownia tree plantations in Australia.

On 31 August 2005 the consolidated entity 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. This acquisition continues the consolidated entity's development towards its ultimate goal of becoming a fully integrated forestry organisation.

There were no other significant changes in the nature of the activities of the consolidated entity during the year.

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6. Operating and financial review

Shareholder returns

	2006 000's (1)	**2005 000's (1)**	**2004 000's (2)**	**2003 000's (2)**	**2002 000's (2)**
Net profit/(loss) attributable to equity holders of the parent	($4,198)	$4,154	$904	$2,123	$1,312
Basic EPS	(16.91) cents	18.31 cents	4.24 cents	9.95 cents	6.16 cents
Dividends paid	0	$1,986	$853	$427	$305
Dividends per share	N/A	8 cents	4 cents	2 cents	1.5 cents
Return on equity	(55.4%)	54.5%	13.1%	35.4%	45.8%

Dividends for 2005 were fully franked and it is expected that dividends in future years will continue to be fully franked.

The 2005/06 sales season saw QPFL sell approximately $10 million of woodlots. This was below expectation and has contributed to the loss experienced in 2005/06.

(1) Prepared in accordance with AIFRS
(2) Prepared in accordance with previous GAAP

7. Dividends

Dividends declared by the Company to members since the end of the previous financial year.

	Cents per share	**Total amount $'000**	**Franked/ unfranked**	**Date of payment**
Declared and paid during the year				
2006				
Interim 2005 ordinary	8c	1,986	Franked	18 July 2005
Total amount		1,986		

Franked dividends declared and paid were franked at the rate of 30%.

8. Events subsequent to reporting date

Subsequent to the balance sheet date the ownership of the land, buildings and property plant and equipment associated with the Kogan Mill was sold by QPFL Milling Pty Ltd and QPFL Contract Services Pty Ltd, to Queensland Paulownia Forests Limited (the parent entity). QPFL Contract Services Pty Ltd continues to operate the milling business

Other than the matter 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.

9. Likely developments

The consolidated entity will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year. This will see the consolidated entity move further towards its goal of being an integrated forestry business.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

10. Directors' interests

The relevant interest of each director in the shares, convertible notes, interests in registered schemes and rights or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate at the date of this report is as follows:

David M Gold	13,250,000 ordinary shares in Queensland Paulownia Forests Limited 50 Woodlots in Queensland Paulownia Forests Project No.6. 300 Capital Forestry Units in Queensland Paulownia Forests Project No.8. 750 Capital Forestry Units in Capital Forestry Units 2006 and 2007
Elizabeth Hutchinson	750,000 ordinary shares in Queensland Paulownia Forests Limited 10 Woodlots in Queensland Paulownia Forests Project No.6. 100 Capital Forestry Units in Queensland Paulownia Forests Project No.8.
Leon Lewandowski	3,000 ordinary shares in Queensland Paulownia Forests Limited

11. Indemnification and insurance of officers

Indemnification

The Company's Constitution provides that the Company will indemnify any director or executive officer of the Company against any liability incurred by them in their capacity as an officer of the Company in defending any proceedings, whether civil or criminal, in which judgement is given in their favour or in which they are acquitted or in connection with any application in relation to any proceedings in which relief is under the Law granted to them by the Court.

Insurance premiums

The company has maintained insurance throughout the financial year for all past and present directors and senior executives against all liabilities to other persons that may arise from their position as directors or senior executives, except where the liability arises out of conduct involving a lack of good faith.

Queensland Paulownia Forests Limited and its controlled entities
Directors' report (continued)
For the year ended 30 June 2006

11. Indemnification and Insurance Officers (continued)

The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the directors and officers liability insurance contract as such disclosure is prohibited under the terms of the contract.

The premiums were paid in respect of the following current directors and secretaries of the Company and its controlled entities:-

D M Gold	Executive Chairman
W S van der Mye	Managing Director and Deputy Chairman
E Hutchinson	Executive Director and Company Secretary
G J Fayle	Executive Director
L Lewandowski	Non-executive Director and Company Secretary

The insurance cover also covers senior executives.

12. 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.

In particular, the Board believes the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *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.

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.

	Consolidated	
In AUD	**2006**	**2005**
Audit services		
KPMG Australia:		
Audit and review of financial reports	90,000	81,990
Audit and review of schemes managed by the company	48,600	33,000
Compliance audit of managed schemes	30,700	22,000
	169,300	**136,990**
Other services		
KPMG Australia		
Taxation services	5,000	33,550
Accounting assistance (AIFRS)	34,100	-
Recruitment services	101,233	-
Contractor administration fee	35,367	-
	175,700	**33,550**

13. Proceedings on behalf of the Company

In 2003 the standing timber in Projects 4 and 5 at Austin Downs was destroyed by a hail storm. QPFL claimed on the insurance policy in respect of this damage however the insurer did not provide full indemnity. QPFL sought legal advice and subsequently commenced an action against the insurer in March 2006 claiming indemnification under the terms of the insurance policy. The matter is progressing in the Supreme Court of Queensland at this stage. If QPFL is successful in the action growers who participated in the insurance arrangements will receive payment in the sum of their insured value (less excess and any legal costs not paid by the insurer.) As the owner of some woodlots in the projects, the company would also receive some benefit if the action is successful

14. Lead auditor's independence declaration

The Lead Auditor's Independence Declaration is set out on page 22 and forms part of the Directors' Report for financial year 2006.

15. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

Elizabeth Hutchinson
Director

Dated at Gold Coast this 30th day of September 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 audit for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Stephen Board
Partner

Gold Coast

30 September 2006

Queensland Paulownia Forests Limited and its Controlled Entities
Income statements
For the year ended 30 June 2006

		Consolidated		The Company	
In thousands of AUD	*Note*	**2006**	**2005**	**2006**	**2005**
Revenue	*3*	21,335	22,380	20,217	22,332
Interest Received	*3*	417	478	367	444
Other income	*3*	649	563	638	563
Net increment/(write down) in market value of biological assets	*4*	(1,666)	(3,068)	(1,666)	(3,068)
Plantation expenses		(8,101)	(4,819)	(8,951)	(5,457)
Milling expenses		(1,460)	(97)	(187)	(97)
Research expenses		(15)	(310)	(15)	(310)
Selling and distribution expenses		(3,558)	(4,399)	(3,558)	(4,399)
Administration expenses		(4,845)	(2,544)	(4,835)	(2,537)
Finance costs	*7*	(1,590)	(2,346)	(1,339)	(1,894)
Impairment losses	*4*	(2,464)	(82)	(3,464)	(81)
Profit/(Loss) before tax		(1,298)	5,756	(2,793)	5,496
Income tax expense	*8*	(2,900)	(1,602)	(2,647)	(1,412)
Profit/(Loss)		(4,198)	4,154	(5,440)	4,084
Basic earnings/(loss) per share	*9*	(16.91c)	18.31c		
Diluted earnings/(loss) per share	*9*	(16.91c)	12.42c		

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 27 to 77

Queensland Paulownia Forests Limited and its Controlled Entities
Statements of recognised income and expense
For the year ended 30 June 2006

In thousands of AUD	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Net income recognised directly in equity		-	-	-	-
Profit/(loss) for the period		(4,198)	4,154	(5,440)	4,084
Total recognised income and expense for the period.	*25*	(4,198)	4,154	(5,440)	4,084

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 27 to 77.

Queensland Paulownia Forests Limited and its Controlled Entities

Balance sheets

As at 30 June 2006

		Consolidated		The Company	
In thousands of AUD	*Note*	**2006**	**2005**	**2006**	**2005**
Assets					
Cash and cash equivalents	*10*	4,910	14,167	4,861	14,166
Trade and other receivables	*11*	13,173	17,248	12,826	17,246
Inventories	*12*	139	158	87	158
Investments	*14*	-	783	-	783
Other assets	*15*	528	1,182	525	1,082
Total current assets		18,750	33,538	18,299	33,435
Trade and other receivables	*11*	835	4,117	-	3,592
Investments	*14*	-	-	1,410	2,469
Deferred tax assets	*17*	-	2,566	-	2,566
Property, plant and equipment	*18*	11,437	7,485	7,795	5,112
Biological assets	*13*	-	1,666	-	1,666
Intangible assets	*19*	286	-	-	-
Other assets	*15*	590	-	582	-
Total non-current assets		13,148	15,834	9,787	15,405
Total assets		31,898	49,372	28,086	48,840
Liabilities					
Trade and other payables	*20*	4,445	5,352	4,364	5,080
Interest-bearing loans & borrowings	*21*	4,393	6,428	2,128	6,428
Employee benefits	*22*	472	223	414	223
Income tax payable	*16*	50	4,170	-	3,980
Dividend payable		-	1,986	-	1,986
Provisions	*23*	814	-	814	-
Deferred revenue	*24*	5,915	11,811	5,915	11,811
Total current liabilities		16,089	29,970	13,635	29,508
Interest-bearing borrowings	*21*	10,334	9,729	10,288	9,729
Total non-current liabilities		10,334	9,729	10,288	9,729
Total liabilities		26,423	39,699	23,923	39,237
Net assets		5,475	9,673	4,163	9,603
Equity					
Issued capital	*25*	4,885	4,885	4,885	4,885
Retained earnings	*25*	590	4,788	(722)	4,718
Total equity		5,475	9,673	4,163	9,603

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 27 to 77.

Queensland Paulownia Forests Limited and its Controlled Entities
Statements of cash flows

For the year ended 30 June 2006

In thousands of AUD	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Cash flows from operating activities					
Cash receipts from clients		18,497	17,108	17,355	17,108
Cash paid to suppliers and employees		(18,765)	(9,967)	(18,512)	(9,746)
Net cash generated from operations		(268)	7,141	(1,157)	7,362
Interest paid		(833)	(1,286)	(833)	(1,286)
Income taxes paid		(4,760)	(1,218)	(4,418)	(1,218)
GST paid		(1,610)	40	(1,264)	(92)
Bank Guarantee Facility		(500)	-	(500)	-
Debtors and loans sold to third parties		10,641	-	10,641	-
Net cash from operating activities	*32*	**2,670**	**4,677**	**2,469**	**4,766**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		34	2	34	2
Interest received		212	283	212	283
Acquisition of subsidiary, net of cash acquired		-	-	-	(1,000)
Acquisition of property, plant and equipment	*18*	(4,515)	(1,527)	(4,384)	(602)
Acquisition of Kogan Mill		(1,170)	-	(1,170)	-
Net cash from investing activities		**(5,439)**	**(1,242)**	**(5,308)**	**(1,317)**
Cash flows from financing activities					
Proceeds from the issue of convertible notes	*21*	-	3,341	-	3,341
Proceeds from borrowings		1,188	-	1,188	-
Repayment of borrowings		(562)	(658)	(540)	(658)
Dividends paid	*25*	(1,986)	(853)	(1,986)	(853)
Net cash from financing activities		**(1,360)**	**1,830**	**(1,338)**	**1,830**
Net increase in cash and cash equivalents		(4,129)	5,265	(4,177)	5,279
Cash and cash equivalents at beginning of year		8,113	2,848	8,112	2,833
Cash and cash equivalents at 30 June	*10*	**3,984**	**8,113**	**3,935**	**8,112**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 27 to 77.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements

For the year ended 30 June 2006

1. Significant accounting policies

Queensland Paulownia Forests Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

The financial report was authorised for issue by the directors on 30 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs"), adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards ("AASBs") adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS") to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 37.

(b) Going Concern

The financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business. The company and consolidated entity have incurred significant operating losses after tax of $5,440,000 and $4,198,000 respectively for the year ended 30 June 2006.

The directors have prepared cash flow projections for the period to 31 December 2007 that support the ability of the company and consolidated entity to continue as a going concern. These projections are dependent on the company and consolidated entity achieving the following assumptions:

- The raising of additional debt funding of approximately $2.0m to finance asset purchases and to develop the land required to fulfil contractual obligations in relation to woodlots sold to investors;
- The receipt of amounts owing from debtors of approximately$4.5m prior to 31 December 2006, including an amount of approximately $3.3m from a debtor (and a substantial shareholder) in respect of woodlots previously sold under underwriting arrangements. The receipt of this amount is dependant upon the consolidated entity meeting certain contractual obligations in relation to replanting woodlots. This debtor is secured by a charge over shares which could be sold if the debtor defaults under the agreements;
- Reducing operating expenses significantly from actual levels incurred in the 2006 financial year, and containing costs to a level appropriate to revenue and cash inflows;
- achieving cash inflows from sales levels of woodlots plantation management and licence fees at least in line with those achieved in the 2006 financial year, notwithstanding the disappointing results from drought effected Queensland properties recently announced by the company in respect of certain Paulownia projects previously sold by the company.

The ability of the company and the consolidated entity to achieve these assumptions could be dependent upon a variety of factors and market forces, certain of which are outside the control of the company.

b) **Going Concern (continued)**

While there is a level of uncertainty as to the outcome of these matters, the Directors are of the opinion that the matters noted above are achievable and it is appropriate for the financial statements to be prepared on a going concern basis.

In the event that the company and consolidated entity do not achieve the above assumptions, they may not be able to continue their operations as a going concern and therefore the company and consolidated entity may not be able to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial statements.

(c) **Basis of preparation**

The financial report is presented in Australian dollars. The entity has elected to early adopt the following accounting standards and amendments:

- AASB 119 Employee Benefits (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures.*
- AASB 2005-1 *Amendments to Australian Accounting Standards (May 2005)* amending AASB 139 Financial Instruments: Recognition and Measurement
- *AASB 2005-3 Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 132 *Financial Instruments: Disclosure and Presentation,* AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts and* AASB 1038 *Life Insurance Contracts.*
- *AASB 2005-4 Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement.*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB *3 Business Combinations.*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004).
- UIG 4 *Determining whether an Arrangement contains a Lease.*
- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.*
- UIG 8 *Scope of AASB 2.*

Issued Standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117

Basis of preparation (continued)

- *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

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 Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The 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. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1 (y).

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by consolidated entities.

(d) **Basis of consolidation**

Subsidiaries

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 consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements, less any impairment amounts.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(e) **Foreign currency**

Foreign currency transactions

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 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.

(f) **Property, plant and equipment**

Owned assets

Items of property, plant and equipment are stated at 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.

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 within 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	5 to 10 years
• Plant and equipment - owned	2.5 to 33 years
• Plant and equipment - leased	4 to 5 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(g) Intangible assets

Goodwill

Business combinations

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 37).

Business combinations since 1 July 2004

All 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 no longer amortised but is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

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 the income statement as an expense as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- Computer software 4 years

(h) 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.

(i) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy l).

(j) 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.

(j) **Inventories (continued)**

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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(k) **Cash and cash equivalents**

Cash and cash equivalents comprises cash in banks and call deposits. 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.

(l) **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, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with 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 cash-generating units 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 receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell 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 current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

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.

An impairment loss in respect of goodwill is not reversed.
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.

(m) **Dividends**

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

(n) **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 (liabilities).

(o) **Interest-bearing borrowings**

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.

(p) **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 received by the employees.

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 expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which 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.

(q) **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 economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, 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 obligations under the contract.

(r) **Trade and other payables**

Trade and other payables are stated at their amortised cost. Trade payables are not interest bearing and are normally settled on 30 day terms.

(s) **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 appropriate managed schemes, land and infrastructure preparation and the acquisition/propagation and planting of seedlings. The provision of these services takes place over approximately 12 months, and the up-front fees are recognised as revenue in proportion to the percentage of work completed at the balance date.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(t) **Expenses**

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received or provisions for make-good obligations are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance costs

Interest payable on borrowings is calculated using the effective interest method.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(u) **Income tax**

Income tax on the income statement for the year 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 payable in respect of previous years.

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, 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.

(v) **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.

(w) **Investments in equity securities**

Other financial instruments held by the consolidated entity are classified as being available for sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available for sale investments are recognised/derecognised by the consolidated entity on the date it commits to purchase/sell the investments..

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 remeasurement.

(x) **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 balance sheet.

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.

(y) **Accounting estimates and judgements**

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Valuation of biological assets

The value of standing timber (Paulownia trees) on woodlots owned by the company is determined by estimating the net present value of future cash flows, including maintenance of the trees and the expected future net sales revenue following harvest. In determining the net present value of these cash flows it is necessary to make assumptions about future growth rates, harvesting and milling costs, and the likely selling price of the timber produced. Significant errors in these assumptions could result in the value of these assets being under or over-stated.

The company takes a conservative approach in its assumptions for valuing biological assets, including the use of a discount rate (currently 12.5%) for converting future cash flows to present values. This discount rate is based on an independent expert valuers report commissioned by the directors in 2005. Further details of the assumptions used are contained in note13.

Recoverability of land development costs

The company has spent over $4 million on the development of land at Forbes in NSW for the purposes of plantation establishment, and is carrying the cost of this work as an asset on the balance sheets of the company and the consolidated entity. The majority of the land is owned by either the company or its wholly owned subsidiary Quality Land Holdings Pty Ltd, with the remainder leased from third parties. The work completed includes laser levelling of the land, and the construction of dams and channels to facilitate the employment of furrow irrigation techniques on the plantations. It is considered that this work has made permanent improvements to the land, and will deliver substantial future economic benefits to the Company in fulfilling its obligations for plantation maintenance. As the majority of the economic benefits of this work will flow to the company the directors believe it is most appropriate for the asset to be reflected on the balance sheet of the company regardless of who holds legal title to the land. Development costs in respect to land leased from external parties are amortised over the period of the lease.

Going Concern

Refer Note 1 (b)

2. Segment reporting

Segment information is presented in respect of the consolidated entity's business segments. No geographical segmentation is considered necessary as the consolidated entities operations are focussed solely in Australia.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

Segment reporting (continued)

Business segments

The consolidated entity comprises the following main business segments:

- *Establishment and Plantation Management:* Covering the promotion of managed investment in forestry and the management of plantations established for that purpose.
- *Timber Milling:* Covering the processing and sale of timber.

	Establishment & Plantation Management		Timber Milling		Consolidated	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Revenue from external customers:						
Sales	-	13	1,122	-	1,122	13
Services	20,213	22,367	-	-	20,213	22,367
Interest	417	478	-	-	417	478
Other revenue	649	563	-	-	638	563
Total revenue from external customers	21,279	23,421	1,122	-	22,401	23,421
Inter-segment revenue	-	-	-	-	-	-
Total revenue	21,279	23,421	1,122	-	22,401	23,421
Segment result	439	8,102	(147)	-	292	8,102
Unallocated expenses	-	-	-	-	-	-
Profit/(loss) before financing costs	439	8,102	(147)	-	292	8,102
Financing costs	(1,588)	(2,346)	(2)	-	(1,590)	(2,346)
Income tax expense	(2,900)	(1,602)	-	-	(2,900)	(1,602)
Profit/(loss) for the period	(4,049)	4,154	(149)	-	(4,198)	4,154
Segment assets	30,749	49,372	1,149	-	31,898	49,372
Unallocated assets	-	-	-	-	-	-
Total assets	30,749	49,372	1,149	-	31,898	49,372

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

Business segments (continued)

	Plantation Management		Timber Milling		Consolidated	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Segment liabilities	25,927	39,699	496	-	26,423	39,699
Unallocated liabilities	-	-	-	-	-	-
Total liabilities	25,927	39,699	496	-	26,423	39,699
Cash flows from operating activities	2,469	4,677	201	-	2,670	4,677
Cash flows from investing activities	(4,138)	(1,242)	(1,301)	-	(5,439)	(1,242)
Cash flows from financing activities	(1,947)	1,830	587	-	(1,360)	1,830
Capital expenditure	(4,384)	(1,527)	(131)	-	(4,515	(1,527)
Impairment losses	(2,464)	(82)	-	-	(2,464)	(82)

As timber milling commenced in September 2005, no comparatives are available.

3. Income

Revenue

		Consolidated		The Company	
In thousands of AUD	Note	**2006**	**2005**	**2006**	**2005**
Sale of goods					
Seedlings and super-roots		-	13	-	13
Timber		1,122	-	4	-
Total		1,122	13	4	13
Rendering of services					
Plantation establishment fees		16,406	19,019	16,406	19,019
Plantation management and licence fees		3,783	3,277	3,783	3,277
Other services		24	71	24	23
Total		20,213	22,367	20,213	22,319
Total revenue		21,335	22,380	20,217	22,332
Interest received		417	478	367	444
Other income					
Woodlot insurance		282	272	282	272
Diesel fuel rebate		298	286	294	286
Profit/(loss) on disposal of property plant and equipment		4	1	4	1
Sundry income		65	4	58	4
Total other income		649	563	638	563

4. Other expenses

In thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Profit has been arrived at after charging the following items:-					
Depreciation and amortisation		654	482	565	482
Impairment losses - debts written off		1,366	82	1,366	81
Impairment losses - property plant and equipment.		1,098	-	1,098	-
Impairment losses - investments in subsidiaries.		-	-	1,000	-
Net increment/(write down) in market value of biological assets.	*13*	1,666	3,068	1,666	3,068

5. Personnel expenses

In thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Wages and salaries		3,277	2,310	2,969	2,310
Non-monetary benefits		226	122	226	122
Bonuses		264	32	264	32
Payments to defined contribution plans		289	177	261	177
Increase in liability for annual and long service leave	*22*	113	47	90	47
		4,169	**2,688**	**3,810**	**2,688**

6. Auditors' remuneration

In AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Audit services				
KPMG Australia:				
Audit and review of financial reports	90,000	81,990	90,000	81,990
Audit and review of schemes managed by the company	48,600	33,000	48,600	33,000
Compliance services of managed schemes	30,700	22,000	30,700	22,000
	169,300	**136,990**	169,300	**136,990**
Other services				
KPMG Australia				
Taxation services	5,000	33,550	5,000	33,550
Accounting services (AIFRS)	34,100	-	34,100	-
Recruitment services	101,233	-	101,233	-
Contractor administration fee	35,367	-	35,367	-
	175,700	**33,550**	175,700	**33,550**

7. Finance Costs

	Note	Consolidated		The Company	
In thousands of AUD		2006	2005	2006	2005
Interest expense – convertible notes	*21*	1,171	1,218	1,171	1,218
Other interest expense		78	60	74	60
Bank and other charges		90	53	83	52
Discounting on growers loans		240	503	-	52
Other		11	512	11	512
Total Finance Costs		**1,590**	**2,346**	**1,339**	**1,894**

8. Income tax expense

Recognised in the income statement

	Note	Consolidated		The Company	
In thousands of AUD		2006	2005	2006	2005
Current tax expense					
Current year		253	5,059	-	4,869
Adjustments for prior years		82	(15)	82	(15)
		335	5,044	82	4,854
Deferred tax expense					
Origination and reversal of temporary differences, including derecognition	17	2,565	(3,442)	2,565	(3,442)
Total income tax expense in income statement		**2,900**	**1,602**	**2,647**	**1,412**

Numerical reconciliation between tax expense and pre-tax net profit

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Profit before tax	(1,298)	5,756	(2,793)	5,496
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	(389)	1,727	(838)	1,649
Increase/(Decrease) in income tax expense due to:				
Non assessable items	(118)	(129)	(10)	(241)
Non-deductible expenses	5	19	5	19
Deferred tax assets derecognised	3,320	-	3,408	-
	2,818	1,617	2,565	1,427
Under / (over) provided in prior years	82	(15)	82	(15)
Income tax expense on pre-tax net profit	**2,900**	**1,602**	**2,647**	**1,412**

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

Deferred tax recognised directly in equity

	Note	Consolidated		The Company	
In thousands of AUD		2006	2005	2006	2005
Relating to share issue costs	37	-	8	-	8
		-	8	-	8

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the profit/(loss) attributable to ordinary shareholders of ($4,198,000) (2005: $ 4,154,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 24,825,995 (2005: 22,687,639), calculated as follows:

Profit attributable to ordinary shareholders

	Consolidated	
In thousands of AUD	2006	2005
Profit/(loss) attributable to ordinary shareholders	**(4,198)**	**4,154**

Weighted average number of ordinary shares

		Consolidated	
In thousands of shares	*Note*	2006	2005
Issued ordinary shares at start of year		24,826	21,326
Effect of shares issued in March 2005		-	1,362
Weighted average number of ordinary shares at end of year		**24,826**	**22,688**

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2006 was based on profit attributable to ordinary shareholders of ($3,026,000) (2005: $5,007,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2006 of 44,462,359 (2005: 40,297,579), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

In thousands of shares	2006	2005
Profit attributable to ordinary shareholders	(4,198)	4,154
After-tax effect of interest on convertible notes	1,172	853
Profit attributable to ordinary shareholders (diluted)	**(3,026)**	**5,007**

9. Earnings per share (continued)

Weighted average number of ordinary shares (diluted)
In thousands of shares

	2006	2005
Undiluted weighted average number of ordinary shares	24,826	22,688
Effect of conversion of convertible notes	19,636	17,610
Weighted average number of ordinary shares (diluted)	**44,462**	**40,298**

Earnings per share for continuing operations

	2006	2005
Basic earnings/(loss) per share	**(16.91c)**	**18.31¢**
Diluted earnings/(loss) per share	**(16.91c)**	**12.42¢**

Diluted earnings per share is the same as basic earnings per share as potential ordinary shares are non-dilutive.

10. Cash and cash equivalents

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Bank balances	4,904	11,051	4,855	11,050
Call deposits	6	3,116	6	3,116
	4,910	**14,167**	**4,861**	**14,166**
Reconciliation to statement of cash flows				
Cash and cash equivalents	4,910	14,167	4,861	14,166
Bank overdrafts repayable on demand	(926)	(6,054)	(926)	(6,054)
Cash and cash equivalents in the statement of cash flows	**3,984**	**8,113**	**3,935**	**8,112**

11. Trade and other receivables

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Current				
Loans to controlled entities	-	-	5,326	178
Trade and sundry debtors	4,104	1,778	4,014	1,778
Growers' loans	5,152	8,671	159	8,669
Underwritten receivables	3,327	6,799	3,327	6,799
Third party financier	590	-	-	-
	13,173	**17,248**	**12,826**	**17,246**
Non-current				
Growers' loans	835	2,586	-	1,883
Underwritten receivables	-	1,531	-	1,531
	835	**4,117**	**-**	**3,592**

Trade receivables are shown net of impairment losses amounting to $150,000 (2005: $40,000), and arising from the likely non payment by those receivables.

12. Inventories

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Nursery stock and stores	87	158	87	158
Timber – round logs	52	-	-	-
	139	**158**	**87**	**158**

13. Biological assets

These assets comprise interests in paulownia tree plantations at various stages of maturity.

	Consolidated		Company	
In thousands of AUD	2006	2005	2006	2005
Reconciliation of changes in carrying amount Paulownia trees				
Balance at 1 July	1,666	4,734	1,666	4,734
Increase due to woodlots acquired		61		61
Change in fair value less estimated point-of-sale costs	(1,666)	(3,129)	(1,666)	(3,129)
Balance at 30 June	-	**1,666**	-	**1,666**
Non-current	-	1,666	-	1,666
Current	-	-	-	-
	-	**1,666**	-	**1,666**
Breakdown by project				
Project 1 - Wooroolin and Kumbia	-	191	-	191
Project 2 - Kumbia, Island Creek & Palm Range	-	378	-	378
Project 3 - Island Creek, Riverbend & Austin Downs	-	997	-	997
Project 4 - Austin Downs	-	35	-	35
Project 5 - Austin Downs	-	44	-	44
Project 6 - Austin Downs	-	21	-	21
Total	-	**1,666**	-	**1,666**

The Directors have determined to write down the carrying value of biological assets to Nil in the period to 30 June 2006. In addition the company contributed all woodlots currently owned by QPFL to growers in Projects 1, 2 and 3. Further, given the ongoing drought conditions and consideration QPFL is currently giving to other Queensland based projects, Directors have determined that it is appropriate to adopt a conservative approach to the valuation of woodlots owned by the company.

At 30 June 2005 significant assumptions used in determining the market value of the biological assets were as follows:

- trees in each project were to be harvested over 4 years
- yields would range from 45% to 58% based on tree maturity
- costs of harvesting and milling were at market rates
- a pre tax discount rate of 12.5%

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

14. Investments

In thousands of AUD	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current investments					
Listed equity securities available for sale		-	783	-	783
Non-current investments					
Investments in controlled entities	30	-	-	1,410	2,469

An impairment loss amounting to $1,000,000 in respect of investments in controlled entities was recognised by the company during the current financial year (2005: Nil), based on a value in use calculation incorporating budgeted cashflows.

15. Other assets

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current				
Taxation refundable from ATO	127	-	127	-
Prepayments	401	540	398	440
Prepaid underwriting fees	-	642	-	642
	528	1,182	525	1,082
Non Current				
Security deposits	90	-	82	-
Bank guarantee deposit	500	-	500	-
	590	-	582	-

16. Current tax assets and liabilities

The current tax asset for the consolidated entity of $127,000 (2005: Nil) and for the company of $127,000 (2005: Nil) represents the amount of income taxes recoverable in respect of prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority.

The current tax liability for the consolidated entity of $50,000 (2005: $4,170,000) and for the company of Nil (2005: $3,980,000) represent the amount of income taxes payable in respect of current and prior periods.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	**Assets**		**Liabilities**		**Net**	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Trade & other receivables	166	-	-	-	166	-
Other assets	10	-	(7)	-	3	-
Property, plant and equipment	329	-	(12)	(13)	317	(13)
Biological assets	-	-	-	(500)	-	(500)
Interest-bearing loans and borrowings	-	40	-	-	-	40
Accrued expenses	314	25	-	-	314	25
Provisions	83	7	-	-	83	7
Deferred revenue	-	2,998	-	-	-	2,998
Share issue costs	38	8	-		38	8
Tax losses	2,399	-	-	-	2,399	-
Tax (assets) / liabilities	3,339	3,078	(19)	(513)	3,320	2,565
Set off of tax	(19)	(513)	19	513	-	-
Net tax (assets) / liabilities	3,320	2,565	-	-	3,320	2,565
Less derecognised deferred tax assets	(3,320)	-	-	-	(3,320)	-
Closing balance 30 June 2006	-	2,565	-	-	-	2,565

The Company	**Assets**		**Liabilities**		**Net**	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Trade & other receivables	105	-	-	-	105	-
Other assets	10	-	(7)	-	3	-
Investments in subsidiaries	300	-	-	-	300	-
Property, plant and equipment	329	-	(12)	(12)	317	(12)
Biological assets	-	-	-	(500)	-	(500)
Interest-bearing loans and borrowings	-	40	-	-	-	40
Accrued expenses	314	25	-	-	314	25
Provisions	66	7	-	-	66	7
Deferred revenue	-	2,998	-	-	-	2,998
Share issue costs	38	8	-	-	38	8
Tax losses	2,265	-	-	-	2,265	
Tax (assets) / liabilities	3,427	3,078	(19)	(512)	3,408	2,566
Set off of tax	(19)	(512)	19	512	-	-
Net tax (assets) / liabilities	3,408	2,566	-	-	3,408	2,566
Less derecognised deferred tax assets	(3,408)	-	-	-	(3,408)	-
Closing balance 30 June 2006	-	2,566	-	-	-	2,566

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

17. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

	Consolidated				The Company			
In thousands of AUD	Balance 1 Jul 04	Recognised in income	Recognised in equity	Balance 30 Jun 05	Balance 1 Jul 04	Recognised in income	Recognised in equity	Balance 30 Jun 05
Property, plant and equipment	(10)	(3)	-	(13)	(10)	(3)	-	(13)
Intangible assets	-	-	-	-	-	-	-	-
Biological assets	(1,420)	920	-	(500)	(1,420)	920	-	500
Interest-bearing loans and borrowings	-	40	-	40	-	40	-	40
Employee benefits	25	(25)	-	-	25	(25)	-	-
Accrued expenses	5	20	-	25	5	20	-	25
Provisions	6	1	-	7	6	1	-	7
Deferred revenue	565	2,433	-	2,998	565	2,433	-	2,998
Share issue costs	16	-	(8)	8	16	-	(8)	8
Prepayments	(56)	56	-	-	(56)	56	-	-
	869	3,442	8	2,565	869	3,442	8	2,565

In thousands of AUD	Balance 1 Jul 05	Recognised in income	Recognised in equity	Balance 30 Jun 06	Balance 1 Jul 05	Recognised in income	Recognised in equity	Balance 30 Jun 06
Trade and other receivables	-	166	-	**166**	-	105	-	**105**
Other assets	-	3	-	**3**	-	3	-	**3**
Investment in subsidiaries	-	-	-	**-**	-	300	-	**300**
Property, plant and equipment	(13)	330	-	**317**	(13)	330	-	**317**
Biological assets	(500)	500	-	**-**	(500)	500	-	**-**
Interest-bearing loans and borrowings	40	(40)	-	**-**	40	(40)	-	**-**
Employee benefits	-	-	-	**-**	-	-	-	**-**
Accrued expenses	25	289	-	**314**	25	289	-	**314**
Provisions	7	76	-	**83**	7	59	-	**66**
Deferred revenue	2,998	(2,998)	-	**-**	2,998	(2,998)	-	**-**
Share issue costs	8	30	-	**38**	8	30	-	**38**
Tax losses	-	2,399	-	**2,399**	-	2,265	-	**2,265**
	2,565	755	-	**3,320**	2,565	843	-	**3,408**
Less: derecognised deferred tax assets	-	-	-	**(3,320)**	-	-	-	**(3,408)**
Closing balance 30 June 2006	-	-	-	**-**	-	-	-	**-**

For the year ended 30 June 2006

The 2005/2006 tax year saw the company incur a tax loss of approximately $7 million. This tax loss gives rise to a deferred tax asset that the Directors have determined will not be reversed with sufficient probability in the short term to recognise the benefit of the tax assets on the balance sheet. Accordingly, deferred tax assets of $2,565,000 have been derecognised at 30 June 2006.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items

	Consolidated		The Company	
	2006	**2005**	**2006**	**2005**
In thousands of AUD				
Deductible temporary differences	921	-	1,143	-
Tax losses	2,399	-	2,265	-
	3,320	-	3,408	-

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

18. Property, plant and equipment

	Consolidated				The Company			
In thousands of AUD	Land and buildings	Water Assets	Plant & Equipment	Total	Land and buildings	Water Assets	Plant & Equipment	Total
Cost								
Balance at 1 July 2004	3,127	1,548	3,500	**8,175**	423	1,548	3,500	**5,471**
Other acquisitions	1,459	690	698	**2,847**	1,790	690	698	**3,178**
Disposals	-	-	(7)	**(7)**	-	-	-	**(7)**
Balance at 30 June 2005	4,586	2,238	4,191	**11,015**	2,213	2,238	4,191	**8,642**
Balance at 1 July 2005	4,586	2,238	4,191	**11,015**	2,213	2,238	4,191	**8,642**
Acquisitions through business combinations	418	-	556	**974**	-	-	-	-
Other acquisitions	3,009	688	1,198	**4,895**	2,819	688	1,004	**4,511**
Disposals	-	-	(317)	**(317)**	-	-	(317)	**(317)**
Balance at 30 June 2006	8,013	2,926	5,628	**16,567**	5,032	2,926	4,878	**12,836**

		Consolidated				The Company			
In thousands of AUD	*Note*	Land and buildings	Water Assets	Plant & Equipment	Total	Land and buildings	Water Assets	Plant & Equipment	Total
Depreciation and impairment losses									
Balance at 1 July 2004		129	501	2,423	**3,053**	129	501	2,423	**3,053**
Depreciation charge for the year		32	146	304	**482**	32	146	304	**482**
Disposals		-	-	(6)	**(6)**	-	-	(6)	**(6)**
Balance at 30 June 2005		**161**	**647**	**2,721**	**3,529**	**161**	**647**	**2,721**	**3,529**

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

18. Property, plant and equipment

		Consolidated				The Company			
	Note	Land and buildings	Water Assets	Plant & Equipment	Total	Land and buildings	Water Assets	Plant & Equipment	Total
In thousands of AUD									
Balance at 1 July 2005		161	647	2,721	**3,529**	161	647	2,721	**3,529**
Depreciation charge for the year		36	155	463	**654**	36	155	374	**565**
Impairment Losses		236	862	-	**1,098**	236	862	-	**1,098**
Disposals		-	-	(151)	**(151)**	-	-	(151)	**(151)**
Balance at 30 June 2006		**433**	**1,664**	**3,033**	**5,130**	**433**	**1,664**	**2,944**	**5,041**
Carrying amounts									
At 1 July 2004		2,998	1,046	1,077	**5,121**	294	1,046	1,077	**2,417**
At 30 June 2005		4,425	1,591	1,469	**7,485**	2,052	1,591	1,469	**5,112**
At 1 July 2005		4,425	1,591	1,469	**7,485**	2,052	1,591	1,469	**5,112**
At 30 June 2006		**7,580**	**1,262**	**2,595**	**11,437**	**4,599**	**1,262**	**1,934**	**7,795**

18. Property, plant and equipment (continued)

All classes of property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

No depreciation is charged on freehold property owned by the company or any of its controlled entities.

Impairment losses
Given the ongoing drought conditions on QPFL's leased Queensland properties, and the associated costs of maintenance, the Directors have determined that based on the recoverable amount of these assets, it was appropriate to write down the value of all leasehold improvements on these properties at 30 June 2006 to Nil based on a value in use calculation incorporating budgeted cashflows. The impairment loss amounted to $1,098,000, (2005: Nil).

Leased equipment
The consolidated entity leases motor vehicles, farm equipment and office equipment under a number of finance lease agreements. At the end of each of the leases the consolidated entity has the option to purchase the equipment. At 30 June 2006, the net carrying amount of leased plant and machinery was $868,000 (2005: $437,000). The leased equipment secures lease obligations (see note 27).

Property, plant and equipment under development
The company is still in the development stage of some land improvements to its owned properties in Forbes, NSW. This includes the construction of several dams that were not complete at 30 June 2006. Recoverable amount was based on the assets value in use using a pre-tax discount rate of 12.5%

Mortgages
The Public Trustee of Queensland, as trustee for the Convertible Note-holders, has registered a mortgage over the property, water rights and improvements to land at Forbes with a carrying value of $3,422,000 owned by Quality Land Holdings Pty Ltd, a 100% subsidiary of Queensland Paulownia Forests Limited, NSW.

National Australia Bank has registered mortgages over land at Forbes with a carrying value of $1,308,000 (2005: Nil) owned by the company and over land, buildings, plant and equipment at the timber mill in Kogan, Queensland with a carrying value of $995,000 (2005: Nil). The latter assets were owned by QPFL Milling Pty Ltd and QPFL Contract Services Pty Ltd respectively at 30 June 2006.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

19. Intangible assets

Goodwill

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Balance at 1 July	-	-	-	-
Acquisitions through business combinations	286	-	-	-
Balance at 30 June	286	-	-	-

On 31 August 2005 the consolidated entity acquired a sawmill business at Kogan in south-east Queensland (refer note 31). The 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.

Based on the trading results of the mill through to 30 June 2006, directors believe that value in use of the business acquired is in excess of the amount paid for it, and there is no impairment of this cash generating unit. The value in use calculations use cash flow projections for 10 years and a discount rate of 12.5%

20. Trade and other payables

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Trade creditors and accrued expenses	3,743	5,070	3,662	4,798
Other payables and accrued expenses	702	282	702	282
	4,445	5,352	4,364	5,080

21. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate risk, see note 26.

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current liabilities				
Bank Overdraft	926	6,054	926	6,024
Credit cards	28	11	28	11
Insurance premium funding	290	213	290	213
Finance lease liabilities	323	150	305	150
Loan funding facility	1,188	-	579	-
Third party financier	1,638	-	-	-
	4,393	6,428	2,128	6,428
Non-current liabilities				
Convertible notes	9,789	9,452	9,789	9,452
Finance lease liabilities	545	277	499	277
	10,334	9,729	10,288	9,729

For the year ended 30 June 2006

21. Interest-bearing loans and borrowings (continued)

Financing arrangements

Bank overdrafts

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. A formal overdraft limit of $1,000,000 had been granted by the bank at 30 June 2006.

Credit Cards

The total limit on the company's credit card facility is $50,000. The unused amount at 30 June 2006 was $21,679

Loan Funding Facility

The consolidated entity has discounted to a third party financier the majority of the amounts receivable from growers on 12 month interest free loans provided to assist those growers to acquire woodlots. As QPFL Finance Pty Ltd, a 100% owned subsidiary of Queensland Paulownia Forests Limited, retains some of the credit risk associated with the discounted loans, the fair value of the total amounts repayable by growers remains as an asset on the balance sheet of the consolidated entity. This amounted to $1,927,500 at 30 June 2006, and a commensurate liability of $1,638,375 to the third party financier is included as a current liability.

Finance lease facilities

The consolidated entity's lease liabilities are secured by the leased assets of $868,000. (2005: $437,000), as in the event of default, the assets revert to the lessor.

Convertible notes

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Carrying value at 1 July	9,452	5,659	9,452	5,659
Proceeds from issue of notes	-	3,341	-	3,341
Accreted interest	337	452	337	452
Balance at 30 June	**9,789**	**9,452**	**9,789**	**9,452**

9 million Convertible Notes ("Notes") of $1 each were issued pursuant to a prospectus dated 3 December 2003. These notes are quoted on the Bendigo Stock Exchange.

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

Should the company list its ordinary shares on a recognised stock exchange prior to 30 June 2009 the Note-holders 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. The Notes rank equally between themselves and have priority over dividend payments to shareholders.

The Public Trustee of Queensland is the trustee for the Note-holders pursuant to the Trust Deed dated 3 December 2003.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

21. Interest-bearing loans and borrowings (continued)

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; and

(iii) the right to insurance proceeds of the Paulownia trees held by the company in its own right.

Finance lease liabilities
Finance lease liabilities of the Company and the consolidated entity are payable as follows:_

	Consolidated			The Company		
In thousands of AUD	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
At 30 June 2005						
Less than one year	175	25	150	175	25	150
Between one and five years	313	36	277	313	36	277
More than five years	-	-	-	-	-	-
	488	**61**	**427**	**488**	**61**	**427**
At 30 June 2006						
Less than one year	373	50	323	353	47	305
Between one and five years	590	45	545	539	41	499
More than five years	-	-	-	-	-	-
	963	95	868	892	88	804

The company and the consolidated entity have used hire purchase facilities to acquire motor vehicles, plant and equipment and office furniture, equipment and computers. These contracts give the company or consolidated entity an option to acquire the assets at an agreed price at the end of the lease term.

Net carrying amounts of assets under finance leases

The net carrying amounts of assets acquired under finance leases are as follows:-

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Motor vehicles	569	219	505	219
Farm equipment	161	83	161	83
Office and computer equipment	138	135	138	135
	868	**437**	**804**	**437**

For the year ended 30 June 2006

22. Employee benefits

Current

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Salaries and wages accrued	198	94	196	94
Liability for long service leave	84	42	51	42
Liability for annual leave	190	87	167	87
	472	**223**	**414**	**223**

23. Provisions

Current

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Provision for replanting costs				
Balance at 1 July	-	-	-	-
Provisions made during the year	814	-	814	-
Provisions used during the year	-	-	-	-
Provisions reversed during the year	-	-	-	-
Balance at 30 June	**814**	**-**	**814**	**-**

Inclement weather during the planting season resulted in the company agreeing to re-plant a significant number of seedlings on woodlots sold to a third party. The replanting obligations must be fulfilled by 14 December 2006, and the amount of the provision at balance date is the expected cost remaining to fulfil this obligation. Further, provision has also been made for the cost of replanting any Paulownia trees that may be required to guarantee a survival rate of approximately 700 growing trees per hectare in accordance with the company's obligations under various Product Disclosure Statements.

24. Deferred revenue

Current

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Plantation establishment fees	3,666	9,995	3,666	9,995
Plantation licence and management fees in advance	2,249	1,816	2,249	1,816
	5,915	**11,811**	**5,915**	**11,811**

Plantation establishment fees are received from growers upon their application to invest in woodlots or units in schemes. The Company recognises this revenue in proportion to the amount of work completed at balance date of the overall service to establish the growers' interest in the plantation, including the set-up and establishment of the scheme, the acquisition and preparation of the land, and the acquisition/propagation and planting of seedlings.

Plantation licence and management fees on some schemes are billed annually in advance. The Company recognises this revenue on a pro-rata basis over the year.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

25. Capital and reserves

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

	Consolidated			The Company		
In thousands of AUD	Share Capital	Retained Earnings	Total Equity	Share Capital	Retained Earnings	Total equity
Balance at 1 July 2004	2,960	2,620	5,580	2,960	2,620	5,580
Total recognised income and expense	-	4,154	4,154	-	4,084	4,084
Shares issued	1,925	-	1,925	1,925	-	1,925
Dividends to shareholders	-	(1,986)	(1,986)	-	(1,986)	(1,986)
Balance at 30 June 2005	**4,885**	**4,788**	**9,673**	**4,885**	**4,718**	**9,603**
Balance at 1 July 2005	4,885	4,788	9,673	4,885	4,718	9,603
Total recognised income and expense	-	(4,198)	(4,198)	-	(5,440)	(5,440)
Dividends to shareholders	-	-	-	-	-	-
Balance at 30 June 2006	4,885	590	5,475	4,885	(722)	4,163

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)

For the year ended 30 June 2006

25. Capital and reserves (continued)

Share capital

In thousands of shares	The Company 2006	2005
On issue at 1 July	24,826	21,326
Issued in lieu of cash payment	-	3,500
On issue at 30 June – fully paid	24,826	24,826

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Dividends
Dividends recognised in the current year by the Company are:

In thousands of AUD	Cents per share	Total amount	Franked / unfranked	Date of payment
2006				
Final 2006 ordinary	Nil	Nil	N/A	N/A
Total amount	Nil	Nil		
2005				
Interim 2005 ordinary	8 cents	1,986	franked	18 July 2005
Total amount	8 cents	1,986		

Franked dividends declared or paid during the year were franked at the tax rate of 100%.

No dividends were declared by Directors subsequent to the balance date.

For the year ended 30 June 2006

25. Capital and reserves (continued)

Dividends

	The Company	
In thousands of AUD	**2006**	**2005**
Dividend franking account		
30% franking credits available to shareholders of Queensland Paulownia Forests Limited for subsequent financial years	4,781	1,215

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

26. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business.

Credit risk

The consolidated entity is exposed to the risk that growers or unitholders in forestry schemes are unable to pay the fees they are liable to pay to the company, as Responsible Entity, or are unable to repay loans that have been advanced to them to enable them to purchase units or woodlots in the schemes.

The consolidated entity also retains some credit risk in respect of some growers' loan receivables that have been sold to third parties under discounting agreements.

All such amounts owing from growers in respect of fees or loan repayments are secured by a charge over all of the property and rights attributed to the units / woodlots. In the event of default of payment of any such monies owing the consolidated entity has the right to resume title over the woodlots / units.

The directors regularly review the amounts outstanding from growers and compare this to the value of the associated woodlots / units.

At 30 June 2006 the following conditions existed:-

In AUD	**Amount Owing**
Growers owing more than $5,000 in outstanding fees	**$788,031**
Growers more than one month behind in loan repayments	**$56,725**

At 30 June 2006 the company was owed $3,515,095 , (discounted to $3,326,580 at 30 June 2006) by the underwriter of sales in the company's forestry schemes in respect of the financial years 2003/04 and 2004/05. This amount is scheduled for repayment in full by no later than 21 December 2006. 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.

Other than disclosed above there were no significant concentrations of credit risk at the balance sheet date. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

The majority of the consolidated entity's borrowings are in the form of Convertible Notes, with a fixed rate of interest of 9.28% on the face of the Notes, or 13.02% (including accreted interest). The balance of external borrowings are in the form of redrawable market rate facilities with floating rate interest exposure. The consolidated entity has deemed this to be the most cost effective mix of exposure given the seasonal nature of the entity's cashflows.

The consolidated entity also adopts a policy of on-selling growers' loans to third party financiers. This is done to assist with the cash needs of the business and is done at fixed rates of borrowing, matching the fixed rate of the growers' loans.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)
For the year ended 30 June 2006

26 Financial instruments

Effective interest rates and repricing analysis

In respect of financial assets and liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

		2006								2005							
In thousands of AUD	*Note*	Effective interest rate	Floating rate	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years	Total	Effective interest rate	Floating rate	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years	Total
Consolidated																	
Cash and cash equivalents*	*10*	4.00%	4,910						4,910	4.00%	14,167						14,167
Growers loans - Fixed rate	*11*	11.25%					194	835	1,029	11.25%					620	3,027	3,647
Growers loans	*11*	9.98%		2,278	2,622	58			4,958	9.98%		3,783	3,715	164			7,662
Growers loans - underwriter	*11*	5.00%		3,327					3,327	5.00%			6,799	1,531			8,330
Premium funding	*21*	2.92%		(290)					(290)	2.92%		(214)					(214)
Credit cards	*21*	16.75%	(28)						(28)	15.53%	(10)						(10)
Finance lease liabilities	*21*	7.55%		(160)	(161)	(380)	(167)		(868)	7.55%		(75)	(75)	(172)	(106)		(428)
Convertible notes	*21*	13.02%					(9,000)		(9,000)	13.02%					(9,000)		(9,000)
Market Rate Facility	*21*	8.68%	(1,188)						(1,188)	-							-
			3,694	5,155	2,461	(322)	(8,973)	835	2,850		14,157	3,494	10,439	1,523	(8,486)	3,027	24,154

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (Continued)
For the year ended 30 June 2006

In thousands of AUD	Note	2006 Effective interest rate	2006 Floating rate	2006 6 months or less	2006 6 - 12 months months	2006 1 - 2 years	2006 2 - 5 years	2006 > 5 years	2006 Total	2005 Effective interest rate	2005 Floating rate	2005 6 months or less	2005 6 - 12 months months	2005 1 - 2 years	2005 2 - 5 years	2005 > 5 years	2005 Total
The Company																	
Cash and cash equivalents*	10	4.00%	4,861						4,861	4.00%	14,166						14,166
Growers loans - Fixed rate	11	11.25%					159		159	11.25%					620	2,324	2,944
Growers loans	11	9.98%								9.98%		3,782	3,715	164			7,661
Growers loans - underwriter	11	5.00%		3,327					3,327	5.00%			6,799	1,531			8,330
Premium funding	21	2.92%		(290)					(290)	2.92%		(214)					(214)
Credit cards	21	16.75%	(28)						(28)	15.53%	(10)						(10)
Finance lease liabilities	21	7.55%		(152)	(153)	(360)	(139)		(804)	7.55%		(75)	(75)	(172)	(106)		(428)
Convertible notes	21	13.02%					(9,000)		(9,000)	13.02%					(9,000)		(9,000)
Market Rate Facility	21	8.68%	(579)						(579)	-							-
			4,254	2,885	(153)	(360)	(8,980)	-	(2,354)		14,156	3,493	10,439	1,523	(8,486)	2,324	23,449

For the year ended 30 June 2006

26. Financial instruments (continued)

Foreign currency risk
The consolidated entity has no significant dealings in foreign currencies, and accordingly carries no significant foreign currency risk.

Fair values
The carrying values of financial assets and liabilities approximate their fair value at year end.

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

Convertible notes
The fair value is based on quoted market prices.

Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements.

Trade and other receivables / payables
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

Interest rates used for determining fair value
The entity uses the interest rates implicit in contracts to discount financial instruments. The interest rates used are as follows:

	2006	2005
Receivables	5% - 10%	5% - 10%

27. Operating leases
Leases as lessee
Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Less than one year	1,030	1,032	1,965	1,967
Between one and five years	3,613	3,798	7,353	7,538
More than five years	5,770	6,157	13,250	14,572
	10,413	**10,987**	**22,568**	**24,077**

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

The motor vehicle and office equipment leases are typically over a 4 to 5 year lease term. The lease over head office premises at 50 Cavill Avenue, Surfers Paradise runs until 2010 with an option to extend.

For the year ended 30 June 2006

27. Operating leases (continued)

The leases over the plantations in Queensland are with outside parties, and extend until 2021.

The leases over the plantations at Forbes in NSW are with the wholly owned subsidiary company, Quality Land Holdings Pty Ltd and run until 2019.

Directors do not believe it is necessary to provide for restoration costs in respect of the plantation leases under the terms of lease agreements, as such no obligation exists under the leases beyond what would be expected to be incurred as part of harvesting the biological assets.

28. Capital and other commitments

	Consolidated		The Company	
In thousands of AUD	2006	2005	2006	2005
Capital expenditure commitments				
Property plant and equipment				
Contracted but not provided for and payable:				
Within one year	230	-	-	-
One year or later and no later than five years	-	-	-	-
Later than five years	-	-	-	-
	230	-	-	-
Land acquisition commitments				
Contracted but not provided for and payable:				
Within one year	1,123			
One year or later and no later than five years				
Later than five years				
	1,123			
Employee compensation commitments				
Key management personnel (consolidated and the Company)				
Commitments under employment contracts not provided for in the financial statements and payable:				
Within one year	294	85	294	85
One year or later and no later than five years	-	-	-	-
Later than five years	-	-	-	-
	294	85	294	85

29. Contingencies

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Litigation

The company has received a letter of demand from a former employee alleging unlawful termination and damages of $1.4m. The company disputes the claim and has engaged legal representation.

In the directors' opinion, disclosure of any further information would be prejudicial to the interests of the Company.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (continued)

For the year ended 30 June 2006

30. Consolidated entities

	Country of Incorporation	Ownership interest 2006 %	Ownership interest 2005 %
Parent entity			
Queensland Paulownia Forests Limited			
Subsidiaries			
Quality Land Holdings Pty Ltd	Australia	100	100
QPFL Finance Pty Ltd	Australia	100	100
QPFL Milling Pty Ltd	Australia	100	100
QPFL Contract Services Pty Ltd	Australia	100	100
QPFL Timber Pty Ltd	Australia	100	-

In the financial statements of the Company, investments in controlled entities are measured at cost less any impairment amount. Refer to note 14. The Company has no investments in associates and no jointly controlled entities.

For the year ended 30 June 2006

31. 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, including property, plant and equipment, inventories and goodwill at a cost of $854,248. The consolidated entity effectively owns and controls 100% of the business known as Kogan Mill.

Effect of acquisition
The acquisition had the following effect on the consolidated entity's assets and liabilities.

Acquiree's net assets at the acquisition date

In thousands of AUD	***Note***	**Book Values**	**Fair Values**
Property, plant and equipment		974	974
Inventories		45	45
Employee provisions		(33)	(33)
Net identifiable assets and liabilities		986	986
Goodwill on acquisition	*19*	286	286
Consideration paid, satisfied in cash		1,272	1,272

Goodwill has arisen on acquisition of Kogan Mill because of customer relationships that did not meet the criteria for recognition as an intangible asset at the date of acquisition.

As disclosed in Note 36, Subsequent Events, the freehold property and plant and equipment were sold by QPFL Milling Pty Ltd and QPFL Contract Services Pty Ltd to the parent entity on 31 August 2006. QPFL Contract Services Pty Ltd continues to operate the business.

Had the consolidated entity acquired the business on 1 July 2005, the effect on the consolidated entity's financial statements would not have been materially different.

For the year ended 30 June 2006

32. Reconciliation of cash flows from operating activities

		Consolidated		The Company	
In thousands of AUD	*Note*	2006	2005	2006	2005
Cashflows from operating activities					
Profit/(loss) for the period		(4,198)	4,154	(5,440)	4,084
Adjustments for:					
Depreciation and amortisation	18	654	508	565	508
Change in value of biological assets		1,666	3,068	1,666	3,068
Investment income		(417)	(479)	(367)	(444)
Interest expense	7	1,580	1,834	1,328	1,383
Gain on sale of property, plant and equipment	18	(4)	(1)	(4)	(1)
Impairment Losses		1,098	-	2,098	-
Income tax expense	8	2,900	1,602	2,648	1,412
Operating profit before changes in working capital and provisions		3,279	10,687	2,494	10,011
Increase/(decrease) in deferred revenue	24	(5,896)	8,421	(5,896)	8,421
(Increase)/decrease in trade and other receivables	11	12,315	(15,239)	12,026	(14,050)
(Increase)/decrease in inventories	12	19	(77)	71	(77)
(Decrease)/increase in trade and other payables	20	(907)	3,302	(716)	3,010
Increase in provisions and employee benefits	22	1,063	47	1,005	47
Cash generated from the operations		9,873	7,141	8,984	7,362
Interest paid		(833)	(1,286)	(833)	(1,286)
Taxes paid	8	(6,370)	(1,178)	(5,682)	(1,310)
Net cash from operating activities		2,670	4,677	2,469	4,766

33. Key management personnel

Remuneration policies

Overview of remuneration policies
Remuneration levels for directors, secretaries, senior managers of the Company, and relevant group executives of the consolidated entity ("the directors and senior executives") are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

Remuneration packages include a mix of fixed and variable remuneration. In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel, and contributes to their nominated superannuation plans.

For the year ended 30 June 2006

33 **Key management personnel (continued)**

Overview of performance-linked remuneration

Performance linked remuneration is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives set by the company. Levels of performance linked remuneration are determined annually by the Board based on the performance of the consolidated entity and the individual.

Other benefits

Directors and senior executives can receive additional benefits as part of the terms and conditions of their appointment. The level of such benefits is taken into account when determining the fixed remuneration levels. The only material non-monetary benefits provided to directors and senior executives during the financial year related to motor vehicles and accommodation.

Service contract details

All directors and senior executives of the consolidated entity are employed or contracted by the Company. The terms of the various service contracts and employment agreements vary depending on the nature and role of the person concerned.

For the year ended 30 June 2006

33 Key management personnel (continued)

The following tables list the key management personnel of the consolidated entity throughout the period and summarises the key components of the various contracts.

Service contracts

	Term of contract	Notice required from director /executive	Notice required from Company	Termination Entitlement
Directors				
D M Gold (Executive Chairman)	Unspecified	3 months	3 months in the event of unsatisfactory performance	None
W S van der Mye (Managing Director and Deputy Chairman)	3 years	3 months	6 months in the event of unsatisfactory performance	3 months during 12 month probationary period, 6 months thereafter
E Hutchinson (Executive Director – Administration & Compliance)	12 months	30 days	Remainder of term of contract	Remainder of term of contract
G J Fayle (Executive Director – Farming & Plantation Management)	12 months	30 days	Remainder of term of contract	Remainder of term of contract
L Lewandowski Non-executive Director	No Contract			
Specified Executives				
G J Waldron (Chief Financial Officer)	Unspecified	3 months	6 months in first year and 3 months thereafter	6 months in first year and 3 months thereafter
D S Durham (General Counsel and Chief Compliance Officer)	Unspecified	3 months	6 months in first year and 3 months thereafter	6 months in first year and 3 months thereafter
P D Wright (Forestry Operations Manager)	Unspecified	12 weeks	12 weeks	None

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2006

33 Key management personnel (continued)

Details of the nature and amount of remuneration of directors and senior executives are as follows:

	In AUD	Short-term				Post-employment					Share-based payments		
		Salary & fees $	STI cash bonus $(A)	Non-monetary benefits $	Total	Super-annuation benefits $	Retire-ment benefits $	Total $	Other long term $	Termin-ation benefits	Value of options) $	Total $	S300A (1)(e)(i) Proportion of remuneration performance related %
Directors													
D M Gold (Executive Chairman)	2006	148,056	105,000	23,315	276,371	13,325	Nil	13,325	Nil	Nil	Nil	289,696	36%
	2005	120,000	Nil	19,197	139,197	10,800	Nil	10,800	Nil	Nil	Nil	149,997	0%
W S van der Mye (Non-executive Director) (From 3 October 2005 to 7 February 2006)	2006	25,000	Nil	Nil	25,000	1,350	Nil	1,350	Nil	Nil	Nil	26,350	0%
W S van der Mye (Managing Director) (Appointed 8 February 2006)	2006	101,994	Nil	8,613	110,617	9,179	Nil	9,179	Nil	Nil	Nil	119,786	0%
	2006	126,994	Nil	8,613	135,607	10,529	Nil	10,529	Nil	Nil	Nil	146,136	0%
E Hutchinson (Executive Director)	2006	109,872	105,000	18,878	233,750	Nil	Nil	Nil	Nil	Nil	Nil	233,750	40%
	2005	148,942	Nil	21,215	170,157	Nil	Nil	Nil	Nil	Nil	Nil	170,157	0%
G J Fayle (Executive Director)	2006	133,416	Nil	1,578	134,994	Nil	Nil	Nil	Nil	Nil	Nil	134,994	0%
	2005	172,826	Nil	2,067	174,893	Nil	Nil	Nil	Nil	Nil	Nil	174,893	0%
L Lewandowski (Non-executive Director)	2006	25,000	Nil	Nil	25,000	Nil	Nil	Nil	Nil	Nil	Nil	25,000	0%
	2005	101,653	Nil	Nil	101,653	Nil	Nil	Nil	Nil	Nil	Nil	101,653	0%

The remuneration disclosure has not been rounded to the nearest $1,000.

(A) 100% of the STI cash bonus amounts shown above vested during the year. No amounts vest in future financial years.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2006

33 Key management personnel (continued)

		Short-term				Post-employment			Other long term			
	In AUD	*Salary & fees*	*STI cash bonus*	*Non-monetary benefits*	*Total*	*Super-annuation benefits*	*Retirement benefits*	*Total*	*Insurance premiums*	*Termination benefits*	*Total*	*S300A (1)(e)(i) Proportion of re-muneration performance related %*
		$	$	$	$	$	$	$	$	$	$	
Executives												
G Waldron (Chief Financial Officer) (Commenced 9 January 2006)	2006	86,250	Nil	8,649	94,899	7,763	Nil	7,763	Nil	Nil	102,662	0%
D Durham (General Counsel) (Commenced 30 January 2006)	2006	62,500	Nil	9,070	71,570	5,625	Nil	5,625	Nil	Nil	77,195	0%
P Wright (Manager, Forestry Operations) (Commenced 27 March 2006)	2006	36,561	Nil	2,442	39,003	3,291	Nil	3,291	Nil	Nil	42,294	0%
I Sandeman (Chief Executive Officer) (Commenced 10 January 2005) (Finished 6 February 2006)	2006	120,715	14,000	18,819	153,534	12,407	Nil	12,407	Nil	Nil	165,941	8%
	2005	98,031	Nil	20,653	118,684	8,823	Nil	8,823	Nil	Nil	127,507	0%
Total compensation: key management personnel (Company and consolidated)	2006	869,510	224,000	93,806	1,187,316	54,753	Nil	54,753	Nil	Nil	1,242,069	
	2005	641,452	Nil	63,132	704,584	19,623	Nil	19,623	Nil	Nil	724,207	

The remuneration disclosure has not been rounded to the nearest $1,000.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2006

33. Key management personnel (continued)

Notes in relation to the table of directors' and executive officers remuneration
The short-term incentive bonuses paid to DM Gold and E Hutchinson during the year to 30 June 2006 were in respect of the performance of the company during 2004/05, and in particular the substantial growth in woodlots sold during that period. The amount was finally determined after discussion and approval by the Board.

Key management personnel disclosures

	Consolidated		Parent	
In AUD	2006	2005	2006	2005
David Michael Gold, Chairman, purchased 750 Units in Capital Forestry Units 2006 and 2007. (2005: 300 Units in Project No 8)	825,000	330,000	825,000	330,000
Elizabeth Hutchinson, Director, purchased 100 Units in Project No 8.	-	110,000	-	110,000
David Michael Gold, Chairman, borrowed monies from QPFL Finance Pty Ltd which were on-sold to a third party after year end.				
Loan balance at year end	-	303,250	-	-
Family members of David Gold, Chairman, purchased 56 Units in Capital Forestry Units 2006 and 2007 for $61,600 including GST. (2005: 220 units in Project No. 8 and 7 units in Project No. 9)	61,600	280,500	61,600	280,500
Family members of David Michael Gold, Chairman, borrowed monies from QPFL Finance Pty Ltd which were on-sold to a third party after year end.				
Loan balance at year end	-	202,250	-	-
Family members of David Gold, Chairman, and their associated entities were employed by the company to provide Marketing and Print Production Services.				
Consultants Fees	32,700	46,660	32,700	46,660
Salary Package	-	36,900	-	36,900
An associate of Elizabeth Hutchinson, a Director, has provided services in relation to the Harvest & Milling programme.				
Consultancy Services	122,134	109,376	122,134	109,376
Queensland Paulownia Forests Limited (QPFL) provided IT services to an associate entity of David Michael Gold, Chairman. Charges are based on actual costs incurred with no markup.				
Services rendered by QPFL for the year ending 30 June 2006.	12,294	-	12,294	-

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2006

Key management personnel disclosures (continued)

In thousands of AUD	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
David Michael Gold, a director, operates a current account with the company which fluctuates throughout the year. Balance at 30 June 2006 QPFL owes David Michael Gold	7,833	19,424	7,833	19,424

Number of shares held by directors and specified executives or any related entities in Queensland Paulownia Forests Limited.

David Gold	13,250,000 shares
Elizabeth Hutchinson	750,000 shares
Leon Lewandowski	3,000 shares

These numbers of shares have remained unchanged since prior to 1 July 2004.

34. Other related party transactions

	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
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.	12,019	27,982	12,019	27,982
Interest free loans are made by the Company to wholly owned subsidiaries for capital purchases. These loans have been recognised as an additional investment in subsidiaries and are unsecured and have no fixed term of repayment.	-	-	1,410,000	1,469,000
Short term loans made by the Company to its subsidiaries are repayable on demand and are non-interest bearing.	-	-	5,326,000	178,000

35. Economic dependency

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

36. Subsequent events

Subsequent to the balance sheet date the ownership of the land, buildings and property plant and equipment associated with the Kogan Mill was sold by QPFL Milling Pty Ltd and QPFL Contract Services Pty Ltd, to Queensland Paulownia Forests Limited (the parent entity). QPFL Contract Services Pty Ltd continues to operate the milling business.

37. Explanation of transition to AIFRS

As stated in significant accounting policies note (a), these are the company's and consolidated entity's first financial statements prepared in accordance with Australian Accounting Standards - AIFRS.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the date of transition).

In preparing its opening AIFRS balance sheet, the company and consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRS has affected the company and consolidated entity's balance sheet, income statement and statement of cash flows is set out in the following tables and the notes that accompany the tables.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2006

37. Explanation of transition to AIFRS (continued)

Reconciliation of equity

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS
In thousands of AUD	***Note***	1 July 2004			30 June 2005			1 July 2004			30 June 2005		
Assets													
Cash and cash equivalents		2,848	-	2,848	8,113	-	8,113	2,833	-	2,833	8,112		8,112
Trade and other receivables	*(d)*	5,057	-	5,057	17,300	(52)	17,248	5,057	-	5,057	17,298	(52)	17,246
Inventories		220	-	220	158	-	158	220	-	220	158		158
Other financial assets		-	-	-	783	-	783	-	-	-	783		783
Other assets		245	-	245	1,182	-	1,182	245	-	245	1,082		1,082
Total current assets		8,370	-	8,370	27,536	(52)	27,484	8,355	-	8,355	27,433	(52)	27,381
Trade and other receivables	*(g)*	101	-	101	4,117	-	4,117	2,842	(2,740)	102	5,061	(1,469)	3,592
Investment in subsidiaries	*(g)*	-	-	-	-	-	-	-	2,740	2,740	1,000	1,469	2,469
Deferred tax assets	*(a) & (b)*	-	582	582	-	3,078	3,078	-	582	582	-	3,078	3,078
Property, plant and equipment	*(c)*	5,147	(26)	5,121	7,512	(26)	7,486	2,443	(26)	2,417	5,139	(26)	5,113
Biological assets		4,734	-	4,734	1,666	-	1,666	4,734	-	4,734	1,666	-	1,666
Intangible assets		175	-	175	-	-	-	175	-	175	-	-	-
Total non-current assets		10,157	556	10,713	13,295	3,052	16,347	10,194	556	10,750	12,866	3,052	15,918
Total assets		18,527	556	19,083	40,831	3,000	43,831	18,549	556	19,105	40,299	3,000	43,299

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2006

37. Explanation of transition to AIFRS (continued)
Reconciliation of equity (continued)

		Consolidated						The Company					
		Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS
In thousands of AUD	*Note*	1 July 2004			30 June 2005			1 July 2004			30 June 2005		
Liabilities													
Bank overdraft													
Trade and other payables		1,139	-	1,139	5,164	-	5,164	1,161	-	1,161	4,893		4,893
Interest-bearing loans and borrowings		586	-	586	374	-	374	586	-	586	374		374
Income tax payable		229	-	229	4,170	-	4,170	229	-	229	3,979		3,979
Provisions		935	-	935	2,115	-	2,115	935	-	935	2,115		2,115
Other liabilities	*(b)*	1,350	1,885	3,235	2,097	9,995	12,092	1,350	1,885	3,235	2,097	9,995	12,092
Total current liabilities		4,239	1,885	6,124	13,920	9,995	23,915	4,261	1,885	6,146	13,458	9,995	23,453
Interest-bearing loans and borrowings		5,752	-	5,752	9,729	-	9,729	5,752	-	5,752	9,729		9,729
Deferred tax liabilities	*(e)*	1,627	-	1,627	546	(33)	513	1,627	-	1,627	658	(145)	513
Total non-current liabilities		7,379	-	7,379	10,275	(33)	10,242	7,379	-	7,379	10,387	(145)	10,242
Total liabilities		11,618	1,885	13,503	24,195	9,962	34,158	11,640	1,885	13,525	23,845	9,850	33,696
Net assets		6,909	(1,329)	5,580	16,636	(6,962)	9,673	6,909	(1,329)	5,580	16,454	(6,851)	9,603
Equity													
Issued capital	*(a)*	2,920	40	2,960	4,845	40	4,885	2,920	40	2,960	4,845	40	4,885
Retained earnings	*(f)*	3,989	(1,369)	2,620	11,791	(7,002)	4,788	3,989	(1,369)	2,620	11,609	(6,891)	4,718
Total equity attributable to equity holders of the parent		6,909	(1,329)	5,580	16,636	(6,962)	9,673	6,909	(1,329)	5,580	16,454	(6,851)	9,603

For the year ended 30 June 2006

37. Explanation of transition to AIFRS (continued)

Notes to the reconciliation of equity
The impact on deferred tax of the adjustments described below is set out in note (o).

(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 in the company and consolidated entity by $40,231 at 1 July 2004, and 30 June 2005, increased deferred tax assets by $16,903 at 1 July 2004, and by $8,047 at 30 June 2005, and decreased retained earnings by $24,137 at 1 July 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 company and consolidated entity is to increase deferred revenue by $1,884,520 at 1 July 2004, and by $9,994,959 at 30 June 2005. Deferred tax assets have been increased by $565,356 at 1 July 2004, and by $2,998,488 at 30 June 2005.

These changes have also resulted in a decrease in revenues for the year to 30 June 2005 of $8,110,439. Tax expense was reduced by $2,433,132 for the year to 30 June 2005.

(c) In accordance with AASB116 the company and consolidated entity are required to assess property, plant and equipment for impairment at the transition date. The effect in the company and consolidated entity is to decrease Property, Plant and Equipment at 1 July 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:-

In thousands of AUD	Note	Consolidated 1 July 2004	Consolidated 30 June 2005	The Company 1 July 2004	The Company 30 June 2005
Deferred Tax Asset					
Deductible share issue costs	*a*	17	8	17	8
Deferred revenue	*b*	565	2,998	565	2,998
Temporary tax differences	*f*	-	72	-	72
Increase in deferred tax asset		582	3,078	582	3,078
Deferred Tax Liability					
Temporary tax differences		-	(33)	-	(145)
Decrease in deferred tax liability		-	(33)	-	(145)

37. Explanation of transition to AIFRS (continued)

Notes to the reconciliation of equity (continued)

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

		Consolidated		The Company	
In thousands of AUD	Note	1 July 2004	30 June 2005	1 July 2004	30 June 2005
Trade and other receivables	*(d)*	-	(52)	-	(52)
Deductible share issue costs	*(a)*	(24)	(32)	(24)	(32)
Deferred revenue	*(b)*	(1,319)	(6,996)	(1,319)	(6,996)
Property, plant & equipment	*(c)*	(26)	(26)	(26)	(26)
Deferred tax	*(e)*	-	104	-	215
Total adjustment attributable to shareholders		(1,369)	(7,002)	(1,369)	(6,891)

(g) Quality Land Holdings Pty Ltd Loan Reclassification

The company has reclassified the loan to the 100% owned subsidiary Quality Land Holdings Pty Ltd, from a receivable to an investment in the subsidiary. The effect in the company at 1 July 2004 is to decrease trade and other receivables by $2,740,120 and to increase investments in subsidiaries by the same amount. The effect in the company at 30 June 2005 is to decrease trade and other receivables by $1,469,533 and to increase investments in subsidiaries by the same amount.

Fundamental Error at 30 June 2005

The GAAP opening balance sheet for the company and the consolidated entity at 1 July 2004 in note 37 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 company and 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 37.

Queensland Paulownia Forests Limited and its controlled entities
Notes to the consolidated financial statements

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37. Explanation of transition to AIFRS (continued)
Reconciliation of profit for 2005

In thousands of AUD	*Note*	Consolidated Previous GAAP	Consolidated Effect of Transition to AIFRS	Consolidated AIFRS	The Company Previous GAAP	The Company Effect of Transition to AIFRS	The Company AIFRS
Revenue	*(b)*	31,532	(8,111)	23,421	31,449	(8,111)	23,338
Net increment (write-down) in market value of Paulownia trees		(3,068)		(3,068)	(3,068)		(3,068)
Total revenue		28,464	(8,111)	20,353	28,381	(8,111)	20,270
Changes in inventories		(77)		(77)	(77)		(77)
Raw materials and consumables used		(859)		(859)	(859)		(859)
Employee expenses		(2,142)		(2,142)	(2,142)		(2,142)
Other operating expenses		(10,181)		(10,181)	(10,358)		(10,358)
Operating profit before financing costs		15,205	(8,111)	7,094	14,945	(8,111)	6,834
Finance costs	*(d)*	(1,286)	(52)	(1,338)	(1,286)	(52)	(1,338)
Profit before tax		13,919	(8,163)	5,756	13,659	(8,163)	5,496
Income tax expense	*(a) & (b)*	(4,132)	2,530	(1,602)	(4,054)	2,642	(1,412)
Profit for the period		9,787	(5,633)	4,154	9,605	(5,521)	4,084
Basic earnings per share from continuing operations (cents)		14.97		18.31			
Diluted earnings per share from continuing operations (cents)		8.36		12.42			

Directors' declaration

1 In the opinion of the directors of Queensland Paulownia Forests Limited ("the Company"):

(a) the financial statements and notes, set out on pages 23 to 77, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 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) complying with Australian Accounting Standards 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 by the Managing Director and Chief Financial Officer for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Gold Coast on the 30th day of September 2006.

Signed in accordance with a resolution of the directors:

Elizabeth Hutchinson
Director

KPMG

Independent audit report
to the members of Queensland Paulownia Forests Limited

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes to the financial statements and the directors' declaration set out on pages 23 to 78 for both Queensland Paulownia Forests Limited (the "Company") and Queensland Paulownia Forests Limited and its Controlled Entities (the "Consolidated Entity"), for the year ended 30 June 2006. 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. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards.*

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 an 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 presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards 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, of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, 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.

Audit opinion

In our opinion, 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 2006 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in note 1 (b) on going concern, there is significant uncertainty whether the Company and consolidated entity will be able to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

Stephen Board

Partner

Gold Coast

30 September 2006