QUEENSLAND PAULOWNIA FORESTS LIMITED

ANNUAL GENERAL MEETING 2006

CHAIRMAN'S ADDRESS

The results for the last financial year have been disappointing with sales of your company's Forestry Managed Investment Scheme products down on last year's performance.

QPFL has reviewed the likely reasons for this disappointing performance and they appear to be fivefold, namely:

1) The announcements by the Federal Government of changes to the laws regarding Superannuation in the 2006 May budget, which led many investors to more closely review their wealth creation strategies;

2) An amount of uncertainty cast over the whole Managed Investment Scheme industry through the Federal Government's review of the certain tax and other structures offered growers/investors.

3) The collapse of Westpoint Holdings which led to concerns regarding the independence of Financial Planners and commission structures.

4) The ongoing drought throughout eastern Australia, now regarded as one of the worst on record, which led growers/investors to have raised concerns regarding investment in the agribusiness sector as a whole.

5) The late issue of Product Rulings by the Australian Tax Office which led to condensed sales efforts by most companies in the industry;

The practical effect of all these factors was to create uncertainty in the Managed Investment Schemes industry. QPFL lost market share to its competitors who had large sales teams which enabled them to reach the market in a more timely manner.

This financial year also saw QPFL adopt the new International Reporting Standards for Australia (AIFRS), which meant your directors had to give consideration to the effect on the company of a range of new standards. The directors had to consider the carrying value of assets with outcome being QPFL has written off or down the value of a number of assets including leasehold improvements at Austin Downs and future income tax benefits.

Financial performance for the year can be summarised as:

1. Managed Investment Scheme product sales down from $15 million to $10 million;

2. Net loss after tax of $4.198 million compared to last year's result of net profit after tax of $4.154 million; and

3. Net assets of $5.475 million compared to last year's figure of $9.673 million.

The latter two are due to asset write downs and impairments. These write downs amounted to $7.6million and the directors do not expect any recurrence of this type of write off in the near future.

As a result of last year's sales and financial performance, and the cash requirements for the 2006/07 year, your directors have decided not to declare nor recommend a dividend be declared.

While the financial results for last year were disappointing, and there is no disputing that, it has led to a review of all QPFL operations commencing at Head Office. There a restructuring has commenced, and will be completed shortly, with the aim of significantly reducing overheads and improving day to day management of the organisation.

However, this restructuring is not designed to compromise plantation, milling and nursery operations, rather they need to be supported at the expense of corporate overheads. Furthermore, QPFL has moved forward with arrangements being put in place to carry out extensive nutritional trials on its existing plantations and trials with drought resistant and salt tolerant Paulownia trees.

Other positives for QPFL during this last year were the payment to growers in the first project of a return from the first commercial thinning of the plantations at Kumbia and Wooroolin. The first commercial harvest produced a larger percentage of high grade timber than expected, and prices paid to the growers by QPFL were in line with those quoted in recent Product Disclosure Statements.

The mill purchased by QPFL at Kogan in 2005 has been further upgraded with the installation of a new "green chain" and a move towards "high end" value product rather than the "commodity" products originally produced at the facility. The mill was also used during the last year to cut the Paulownia logs as part of the first commercial harvest.

As shareholders have already been advised, a review of corporate ownership structures was undertaken during the year with a view to maximising value. The options considered included listing on a recognised Stock Exchange, a trade sale, or a joint venture arrangement.

At this time a listing on the Australian Stock Exchange is not being pursued as the Managed Investment Schemes sector has shown extreme volatility for the last six months, and the situation is unlikely to alter in the near future. However, your directors will continue to monitor the situation and maintain an open mind with regard to any alternatives which will maximise shareholder value.

As indicated this year has been disappointing insofar as financial performance is concerned, yet it has also raised challenges regarding the strategic and tactical management of your company. Directors are working towards the diversification of income streams to strengthen future results.

I would like to convey my thanks to my fellow directors and the staff of QPFL for their tireless efforts and dedication during this last year.

David Gold

Chairman

Surfers Paradise

30 November 2006