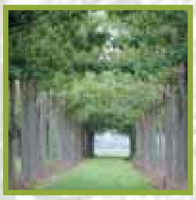
QPFL

Queensland Paulownia Forests Limited

Annual Report

year ended 30 June 2004

A.B.N. 49 071 625 477 27 October 2004

Corporate Directory

Timber related photographs in the annual report are photographs of property or other aspects of QPFL projects.

Registered Office and Administration Office

Queensland Paulownia Forests Limited
ACN 071 625 477

Level 5, Gateway Building
50 Appel Street
Surfers Paradise, Qld 4217

Telephone: (07) 5579 1700
Free Call: 1800 350 071
Facsimile: (07) 5531 6185
E-mail: admin@qpfl.com.au

Auditors

PKF

Level 6, 120 Edward Street
Brisbane, Qld 4000

Telephone: (07) 3226 3555
Facsimile: (07) 3226 3500

Solicitors

McMahon Clarke Legal

62 Charlotte Street
Brisbane, Qld 4000

Telephone: (07) 3831 8999
Facsimile: (07) 3831 1121

Share Registry

ASX Perpetual Registrars limited

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

Telephone: (07) 3228 4219
Facsimile: (07) 3228 4999

Company Secretaries

Elizabeth Hutchinson
Leon Lewandowski

Contents

Highlights

After tax profit has increased 228%

Current Assets have increased by 206%

Cash increase of 31%

Shareholders funds increased by 89%

Purchase of land at Forbes NSW

Dividends up 100%

Convertible Notes Offer: raised $8.1m of $9m

Increased distribution of Financial Product through financial planning groups

First commercial order for timber

Progress with London listing on AIM

An Interview with the Chairman

An interview with the Chairman David M Gold

This is not an actual interview it is a reconstruction of a typical session with growers, investment analysts, shareholders and financial planners. It is a composite of questions commonly asked and answers commonly given. Its purpose is to provide an overview of Queensland Paulownia Forests Ltd (QPFL) and to explain the company's strategy and business plan.

Q. What is the current company business structure?

A. At the current stage of development, the company is a Funds Management business with a contract forestry division managing the plantations for the investors.

As the company matures over the next few years and the trees are harvested the timber processing division will become a major part of the overall business.

We are planning to grow our Funds Management business to approximately $25 million per annum for this timber species. This should provide the company with a hardwood timber resource of approximately 40,000m3 per annum depending on how far up the value added chain we take our timber processing. Paulownia timber sales should rise to over $100 million per annum, when added to the $25 million sales of Managed Funds, the company should have a business that turns over in excess of $125 million per annum with a commensurate level of profitability.

Q. When do you think the company will reach the $125 million sales target?

A. Within the next 5 – 7 years as the plantations come into full production.

Q. You talk about Managed Funds, isn't this a forestry company?

A. It's both. When I talk about Managed Funds, I am talking about a financial investment that is forestry based that we sell to investors, such as woodlots, units, bonds etc. All of these have a forestry component however effectively investors expect their investment in the product to provide them with a return that compensates them for their financial risk.

QPFL buys the timber from the investors and processes the timber through to finished product. In effect, QPFL has a resource that is reliable both as to quality and supply, which can access to meet market demand. This maximises the return to all stakeholders.

Q. When will you begin your first harvest of timber?

A. Investors' timber is scheduled to be harvested during winter 2005. Modest amounts will be taken in the first thinning and over the next 5 years, depending upon climatic conditions, timber volumes will grow substantially.

Q. Have you sold any timber yet?

A. Yes, we have entered into our first forward order for timber that will be processed into jointed board.

This order is destined mainly for the boat building industry.

Q. What price was achieved?

A. Woodlot holders should receive over $1,100m3 for their timber.

Q. Is it true that Paulownia grows from the stump after harvesting?

A. Yes, this is called a coppice.

Q. Will these coppiced trees be offered to investors as woodlots, units or bonds?

A. Yes, many of our Managed Funds have a second harvest option and most of the current investors have indicated they would wish to participate in the second harvest.

Q. How will you mill and process the timber?

A. Feasibility studies to purchase a mill are underway which will include a review to add plant and machinery dedicated to processing Paulownia and producing value added end product.

Q. Why do you plan to list on the London Stock Exchange Alternative Investment Market (AIM)?

A. Currently the company is Paulownia focused. Capital may be required for, amongst other things, the mill and working capital requirements will rise with the volume of timber processed increasing. This being said there is no reason why we cannot use our funds management, forestry, milling and timber distribution expertise for other timber species.

The basic business model is sound and once we have the Paulownia business bedded down we will turn our attention to diversification into other species. This may require capital and London provides access to one of the deepest pools of capital in the world.

Q. So, in the longer term your sales could be substantially more than $125m

A. Yes, the $125m only relates to the current Paulownia timber business

Q. What are the company's forecast earnings for the financial year ending 2005?

A. If economic conditions remain relatively stable, earnings after tax are expected to rise to $9.5 million in 2005 and $13 million in 2006.

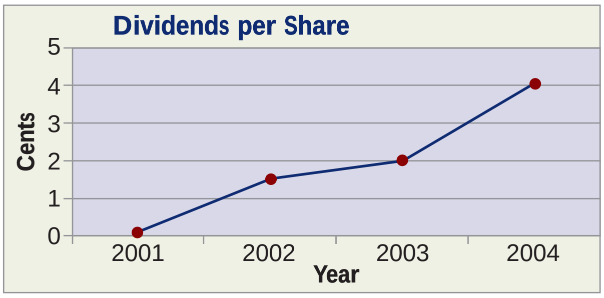
Chairman and Chief Executive Officer's **Review**

This year has seen the company successfully achieve last years set targets and take significant steps forward to secure its position as it continues the transition from a funds manager to a fully integrated listed forestry company.

Financial Performance

For the financial year-end 30 June 2004 compared with last year after tax profit increased by 228% to $6,974,884 ; current assets increased by 206% to $14,138,121, including an increase of cash of 31% to $2,848,167. While current liabilities increased to $9,292,962, Shareholders funds also increased by 89% to $12,980,605.

A fully franked interim dividend of 4 cents per share was declared in June and paid in July, a 100% increase over last years payment of 2 cents per share. The directors have decided not to recommend a final dividend payment this year as the company is still growing at a rapid pace and the next phase will require the acquisition of a mill, together with substantial capital expenditure. There is therefore a need to conserve resources pending confirmation of a successful listing.



Convertible Note Issue

The Convertible Notes Offer which provided finance for the purchase and development of the new plantation in Forbes, NSW, resulted in $5.7 million raised by balance date. This has increased to $8.1 million at today's date and the 462 Convertible Note Holders will be in a position to become ordinary shareholders should the company obtain listing on a recognised Stock Exchange.

This new plantation in Forbes has been prepared and planting of the trees commenced in October.

Timber Mill

At the time of writing the company has a mill under contract; a feasibility study in relation to an upgrade and the addition of more plant and equipment is underway and providing the board is satisfied with the contents of that study the purchase should be completed prior to financial year-end.

New CEO

As the commercial harvesting and milling of the timber from next year onwards becomes part of the everyday activities of the company, this will over time become a significant and integral part of the company requiring different skill sets in future years to drive the company forward.

The company is privileged to have the services of Mr Ian Sandeman B.Sc (Forestry) cum laude, Hons B (B & A), MBA. as the new CEO from January 2005. Ian originally is from South Africa. When he completed his studies he went on to become a senior executive of Mondi Forests, the largest Forestry Company in South Africa.

In 1998 he was brought to Australia from South Africa to head up the Hardwood Plantation Division of State Forests of NSW.

Chairman and Chief Executive Officer's Review (continued)

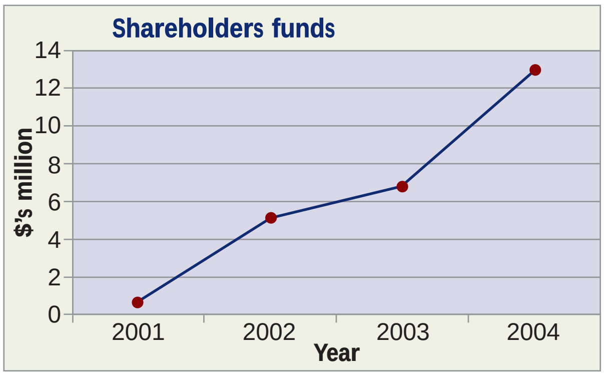
In 2003 he became General Manager of Grand Ridge Plantations, a wholly owned subsidiary of Hancock Victorian Plantations, part of the Hancock Natural Resource Group, which is the world's largest timberland investment manager. He was also on the executive of Hancock Victorian Plantations, which is one of Australia's largest private plantation forestry companies.

Ian's forestry and production milling expertise and experience will be invaluable to the growth of the company.

Ian is due to start his duties on the 10th of January 2005 at which time I will step down as CEO but remain as executive chairman responsible for corporate strategy.

Funds Management & Listing

The launch of tax effective Project No.8 with no annual fees provided diversity for June investors and sales for the 2004 financial year were $18,479,723. The company secured an underwriting agreement for the annual tax effective investments for the current year and the next two, which will ensure that the stated sales targets of managed funds per year are met.



This underwriting will assist QPFL with its listing. The company is well advanced in preparations for listing on the London Stock Exchange Alternative Investment Market (AIM). An exact date for listing has not been determined, as there is an enormous amount of preparation work that needs to be completed, prior to the lodgement of admission documents.

Timber Harvesting & Sales

While the company has solidly progressed over the last three years, one of the most significant achievements has been the establishment of a strategy for the sale and marketing of the timber grown on QPFL's plantations; this strategy for the timber has entailed a detailed committed programme of timber grading, certification, research and development of polymer impregnation of Paulownia timber, market development and refinement of timber processing.

QPFL will commence the commercial harvest programme next year. Over one thousand of QPFL's own trees were felled in July to complete the harvest and milling trials. Some of this timber was used in the pre harvest timber marketing programme, which has already proven successful by producing a forward contract for the timber, which should see growers in early projects receive in excess of $1,100 a cubic metre from the first thinning.

This strong pricing has proven that the calculated methodical process adhered to in obtaining grading and certification of the timber was correct and the board are pleased they did not succumb to the pressure from financial planners to produce a forward contract before the standards and certifications were established.

QPFL will publish Australian Standards for Paulownia in 2005. These standards have been produced by a contracted third party with significant contributions from timber product manufacturers. The board is confident and the market has indicated that the published standards will allow QPFL's timber to rapidly substitute other non-renewable old growth timber resources.

The purchase and upgrade of a mill should see QPFL marketing high quality renewable hardwood timber for applications ranging from boat building to window shutters. While the timber mill will be the first in Australia to be customised for Paulownia the microwaving and polymer impregnation modification processing plant for Paulownia, forecast to come online in approximately 2007, will be a global first.

Thanks to the dedicated work by the timber division of QPFL this "new wood" will have a place in the market.

Commitment and diligence has ensured that from the first commercial harvest through to QPFL's full capacity target of 40,000 cubic metres per year, QPFL will be a price maker not a price taker. Non-woodchip hardwood projects such as QPFL's will be an increasingly attractive investment option as the harvesting of the heavily promoted non-restricted woodchip hardwood projects floods the woodchip market.

Plantations

Performance on the plantations has been promising with the respite from the drought, allowing water storage on the plantations to be replenished and all plantations should have a good recovery-growing season. If the favourable climatic conditions continue, the growing season that commences in October should produce substantial growth increments in the trees.

Farm managers and staff have worked tirelessly on behalf of growers and shareholders preparing the plantations for the current growing season. An enormous amount of work has been completed on the farms in readiness for what we are all hoping will be a productive growing season.

Plans and Targets for the Current Year

Last year saw QPFL achieve all of its stated goals including new fund management product offerings, purchase and development of the NSW plantation, increased distribution network for funds management products, successful pre-marketing of the timber and progress on ISO certification. This coming financial year QPFL plans to:

- Commence commercial harvesting
- Extend planting of the Forbes Plantation
- Offer enhanced financial products with competitive finance
- List on a recognised Exchange

Your continued support is appreciated and we look forward to another year of significant achievements and good results.

Yours Sincerely

David M Gold
Chairman

27 October 2004

FINANCIAL REPORT

for

YEAR ENDED 30TH JUNE, 2004

Contents

DIRECTORS' REPORT

Your directors present the following report for the financial year ended 30th June 2004.

Directors

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

Mr David M Gold **Mrs Elizabeth Hutchinson**

Mr Graham J Fayle **Mr Leon Lewandowski**

Mr Blake Ammit (Resigned 16 July, 2003)

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

Principal activities

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

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

Results of operations

The net profit of the company for the financial year after provision for income tax was $6,974,884.

Review of operations

The operations of the company during the year, was to manage paulownia tree plantations.

Significant changes in the state of affairs

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

Significant after balance date events

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company, in future financial years.

Likely future developments and expected results

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

Performance in relation to environmental regulation

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

Dividends

The following dividends have been provided for during the year:

Interim ordinary dividend of 4 cents (2003-2 cents) per ordinary share declared in June 2004 and paid in July 2004

Options

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

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

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

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Information on Directors

David M Gold	-	Managing Director and Chief Executive Officer (Executive).
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.
Interest in Shares and Woodlots	-	13,250,000 Ordinary Shares and 50 woodlots in Project 6.
Special Responsibilities	-	Responsible for strategic planning, sales and marketing.
Elizabeth Hutchinson	-	Director of Administration and Compliance (Executive).
Qualifications	-	Associate of the Institute of Chartered Accountant 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.
Interest in Shares and Woodlots	-	750,000 Ordinary Shares, 10 woodlots in Project 6 and 15 woodlots in Project 8.
Special Responsibilities	-	Responsibilities include Finance, Taxation, Compliance, Risk and Insurance Management and Company Secretarial. Mrs Hutchinson is a Member of the Audit Committee.
Graham J Fayle	-	Director of Farming and Plantation Management (Executive).
Qualifications	-	Bachelor of Arts and Post Graduate Diploma in Farm Management.
Experience	-	Board member since September 2001. Acted as Plantation Operations manager since 1998. Has had 30 years experience in agriculture in Australia and overseas and served on Boards of Agricultural businesses.
Interest in Shares and Woodlots	-	Nil.
Special	-	Responsible for the efficient operation of the Company's Plantations and is the company's silvicultural Quality Assurance consultant.
Leon Lewandowski	-	Non Executive Director.
Qualifications	-	Associate of the Australian Society of Certified Practising Accountants and Associate of the Institute of Corporate Managers, Chartered Secretaries and Administrators.
Experience	-	Board member since August 1999. Brings to the company, corporate and management expertise and has extensive knowledge of Queensland industry. Has previously been a Director of three other managed investment projects.
Interest in Shares and Woodlots	-	3,000 Ordinary Shares.
Special	-	Mr Lewandowski is a Member of the Compliance Committee Responsibilities and Audit Committee.

Indemnification of officers and auditors

The company has obtained insurance in respect of all directors against all liabilities to other persons that may arise from their positions as directors, except where the liability arises out of conduct involving a lack of good faith. Premiums paid for indemnification $175,000 (2003: $145,000).

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

DIRECTORS' REPORT (Continued)

Meetings of Directors

During the financial year, 16 meetings of directors (including committees) were held.
Attendances were:

Directors Meetings		
	Number Eligible to attend	Number attended
David M Gold	12	12
Elizabeth Hutchinson	12	12
Graham J Fayle	12	10
Leon Lewandowski	12	12
Blake Ammit	-	-

Audit Committee		
	Number Eligible to attend	Number attended
Elizabeth Hutchinson	4	4
Leon Lewandowski	4	4

Signed in accordance with a resolution of the Directors.

Elizabeth Hutchinson - Director

Dated at Surfers Paradise this 27th day of September, 2004.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE, 2004

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Revenues from ordinary activities	2	**18,479,723**	**18,479,723**	9,266,181
Expenses from ordinary activities	3	**8,386,156**	**8,386,056**	6,110,749
Borrowing Costs		**245,555**	**245,555**	134,072
Profit from ordinary activities before income tax expense		**9,848,012**	**9,848,112**	3,021,360
Income tax expense relating to ordinary activities	5	**(2,873,128)**	**(2,873,158)**	(898,438)
Net Profit	4	**6,974,884**	**6,974,954**	2,122,922
Total revenues, expenses, valuation adjustments recognised directly in equity		-	-	-
Total changes in equity other than those resulting from transactions with owners as owners		**6,974,884**	**6,974,954**	2,122,922
Basic Earnings per share	**cents**	32.71	32.71	9.95

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

STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE, 2004

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
CURRENT ASSETS				
Cash		**2,848,167**	**2,833,340**	2,162,001
Receivables	6	**10,413,901**	**10,413,901**	1,874,361
Inventories	7	**80,820**	**80,820**	410,371
Other Financial Assets	10	**-**	**100**	-
Other	8	**795,233**	**795,233**	159,554
Total Current Assets		**14,138,121**	**14,123,394**	4,606,287
NON-CURRENT ASSETS				
Receivables	6	**5,457,805**	**8,197,925**	813,379
Self Generating and Regenerating Assets	9	**4,733,690**	**4,733,690**	4,580,682
Property, Plant and Equipment	11	**5,147,219**	**2,443,267**	2,342,983
Intangible Assets	8	**175,866**	**175,866**	-
Other	8	**641,667**	**641,667**	-
Total Non-Current Assets		**16,156,247**	**16,192,415**	7,737,044
TOTAL ASSETS		**30,294,368**	**30,315,809**	12,343,331
CURRENT LIABILITIES				
Payables	12	**2,112,734**	**2,134,075**	764,885
Interest-bearing Liabilities	14	**586,025**	**586,025**	444,312
Tax Liabilities	5	**2,830,908**	**2,830,908**	621,978
Provisions	13	**935,070**	**935,070**	482,911
Other	15	**2,828,225**	**2,828,225**	1,252,590
Total Current Liabilities		**9,292,962**	**9,314,303**	3,566,676
NON-CURRENT LIABILITIES				
Interest-bearing Liabilities	14	**5,751,662**	**5,751,662**	467,134
Deferred Tax Liabilities	5	**1,627,472**	**1,627,502**	1,450,760
Other	15	**641,667**	**641,667**	-
Total Non-Current Liabilities		**8,020,801**	**8,020,831**	1,917,894
TOTAL LIABILITIES		**17,313,763**	**17,335,134**	5,484,570
NET ASSETS		**12,980,605**	**12,980,675**	6,858,761
EQUITY				
Contributed Equity	17	**2,920,253**	**2,920,253**	2,920,253
Retained Profits	16	**10,060,352**	**10,060,422**	3,938,508
TOTAL EQUITY		**12,980,605**	**12,980,675**	6,858,761

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

QPFL

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE, 2004

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from growers		**6,821,756**	**6,821,757**	8,107,791
Interest received		**124,536**	**124,536**	183,346
Payments to suppliers and employees		**(6,713,186)**	**(6,638,706)**	(5,934,717)
Interest and other costs of finance paid		**(245,555)**	**(245,555)**	(134,072)
Income taxes paid		**(487,485)**	**(487,485)**	(164,561)
GST recovered / (paid)		**(176,061)**	**(229,100)**	(291,353)
Net cash provided by operating activities	2	**(675,995)**	**(654,553)**	1,766,434
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for property, plant and equipment		**(531,388)**	**(531,388)**	(51,444)
Payment for land		**(2,703,952)**	**-**	-
Payments for Intangibles		**(219,833)**	**(219,833)**	-
Proceeds from sales of plant and equipment		**31,776**	**31,776**	18,363
Investment in Subsidiary		**-**	**(100)**	-
Net cash used in investing activities		**(3,423,397)**	**(719,545)**	(33,081)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid		**(426,520)**	**(426,520)**	-
Proceeds from share issue		**-**	**-**	27,275
Proceeds/(Repayments) from borrowings		**(446,722)**	**(446,722)**	(394,911)
Loan to Subsidiary		**-**	**(2,740,120)**	-
Proceeds from convertible notes issue		**5,658,800**	**5,658,800**	-
Net cash provided by financing activities		**4,785,558**	**2,045,438**	(367,636)
Net increase (decrease) in cash held		**686,166**	**671,340**	1,365,717
Cash at the beginning of the year	1	**2,162,001**	**2,162,001**	796,284
Cash at the end of the year	1	**2,848,167**	**2,833,341**	2,162,001

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

NOTES TO THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE, 2004

	Consol 2004 $	Parent 2004 $	Parent 2003 $
1. Reconciliation of Cash			
For the purpose of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statement of cashflows is reconciled to the related items in the balance sheet as follows:			
Cash on hand	1,300	1,300	1,300
Term deposits	2,713,831	2,713,831	2,130,000
Cash at bank	133,036	118,209	30,701
	2,848,167	2,833,340	2,162,001
2. Reconciliation of net cash provided by operating activities to operating profit after income tax			
Operating profit after income tax	6,974,884	6,974,954	2,122,922
Depreciation	380,166	380,166	485,349
Amortisation	119,341	119,341	40,306
Provision for income taxes payable	2,210,711	2,210,711	572,905
Provision for deferred tax liability	174,931	174,961	160,973
Loss / (Gain) on Sale of plant and equipment	117	117	6,111
Changes in assets and liabilities:			
Accounts receivable	(13,183,966)	(13,183,965)	(1,024,739)
Prepayments	(1,277,346)	(1,277,346)	(87,568)
Inventory	329,551	329,551	(99,311)
Other receivables	-	-	567,399
Accounts payable including GST	1,347,849	1,369,190	(59,477)
Other payables	473,013	473,013	(243,113)
Employee benefits	25,639	25,639	(17,510)
Other Liabilities	1,902,123	1,902,123	133,087
Self generating and re-generating assets	(153,008)	(153,008)	(790,900)
Net cash provided by operating activities	(675,995)	(654,553)	1,766,434

QPFL

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

Note 1 - SUMMARY OF ACCOUNTING POLICIES

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

Basis of Accounting

The financial report has been prepared on the historical cost basis except for self generating and regenerating assets which are measured at fair value (refer note 1(d) below).

Recoverable amounts

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

(a) Income Tax

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

(b) Revenue recognition

(a) Sale of goods

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

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

(b) Rendering of services

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

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

(c) Interest revenue

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

Principles of Consolidation

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

The effects of all transactions between entities have been eliminated.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

Note 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

(c) Cash and Term Deposits
Cash includes cash in banks, which is at call, at variable interest rates.

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

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

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

Net market values have been determined in accordance with the directors valuation confirmed as reasonable through a valuation obtained by the project forester, Robin Yule. Robin is a key person for the Australian Financial Services Licence for the Company.

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

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

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

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

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

(f) Growers Loans
Grower loans are brought to account at the principal amount of the loan due, less any provision for doubtful debts. Loans are both interest and non interest bearing, maturing between 1 to 5 years from the date of issue. In the event of a default by an investor on their growers loan, the Responsible Entity has the right to sell the woodlots attached to the loan to recover loan amounts outstanding.

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

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(h) Property, Plant and Equipment

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

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

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

(i) Payables

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

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

(j) Interest Bearing Liabilities

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

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

(k) Borrowing Costs

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

(l) Employee benefits

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

Note 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

(m) Leases

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

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

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

(n) Credit Risk

Credit risk represents the risk of counter party default. The maximum credit risk exposure is represented by the carrying amount of assets in the balance sheet net of any provisions for losses. The company had no significant concentrations of credit risk from any single counter party or group of counter parties.

(o) Research and Development Costs

Research and Development costs are expensed as incurred.

(p) Capitalised Costs

Costs relating to the Convertible Note prospectus have been capitalised. These are to be amortised over the life of the Notes being five years. Should the company list on a recognised stock exchange the Notes will be converted or redeemed and the balance of the capitalised costs will be amortised in full at that time.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Note 2 - REVENUES FROM ORDINARY ACTIVITIES				
Operating Revenue				
Rendering of Services:				
Establishment Fees		**14,855,263**	**14,855,263**	4,984,200
Plantation and Management and Farming Licence Fees		**2,925,645**	**2,925,645**	2,527,490
Sale of Goods				
Sale of Super Roots and Seedlings		**31,124**	**31,124**	51,220
Increment resulting from bringing to account value of Self Generating and Regenerating Assets		**153,008**	**153,008**	790,900
Other		**390,147**	**390,147**	729,025
Total operating revenue		**18,355,187**	**18,355,187**	9,082,835
Non-Operating Revenue				
Interest		**124,536**	**124,536**	183,346
Total non-operating revenue		**124,536**	**124,536**	183,346
Total revenue from ordinary activities		**18,479,723**	**18,479,723**	9,266,181
Interest from related parties included in total interest revenue:				
Directors		-	-	29,093
Other - Director related entities		-	-	24,244

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Note 3 - EXPENSES FROM ORDINARY ACTIVITIES				
(Classified by function)				
Administration		**2,594,619**	**2,594,519**	2,037,985
Plantation Operating Costs		**3,679,801**	**3,679,801**	3,241,993
Sales and Marketing		**2,111,736**	**2,111,736**	830,771
Total expenses from ordinary activities		**8,386,156**	**8,386,056**	6,110,749
Borrowing Costs		**245,555**	**245,555**	134,072
		8,631,711	**8,631,611**	6,244,821

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Note 4 - PROFIT FROM ORDINARY ACTIVITIES				
Profit from ordinary activities includes:				
Loss on sale of growers loans		-	-	180,905
Provision for loss on sale of growers loans subsequent to balance date		-	-	217,950
Net gains/(Losses) on disposal of Property, Plant & Equipment		(117)	(117)	(6,111)
Net bad and doubtful debts expense		95,190	95,190	-
Bad debts recovered		-	-	(8,805)
Underwriting Fee		733,333	733,333	-
Cost of Sale of Super Roots and Seedlings		11,016	11,016	10,244
Net expense resulting from movements in provisions for:				
- Employee entitlements		25,639	25,639	(17,510)
- Amortisation of leasehold improvements		35,187	35,187	38,148
- Depreciation of owned plant & equipment		285,119	285,119	361,889
- Amortisation of leased plant & equipment		40,187	40,187	40,306
- Amortisation of capitalised water improvements		130,234	130,234	85,312
- Amortisation of capitalised costs		43,967	43,967	-
		560,333	560,333	508,145
Borrowing Costs		245,555	245,555	134,072
Operating lease expense – minimum lease payments		632,680	632,680	603,536
Research and Development Costs		479,791	479,791	190,526
Note 5 - INCOME TAX				
The amount provided in respect of income tax differs from the amount prima facie payable on operating profit. The difference is reconciled as follows:				
Prima facie tax on operating profit calculated at @ 30%		2,954,404	2,954,434	906,408
Add - Tax effect of:				
- Non-deductible expenses		3,509	3,509	7,471
- Share Issue Costs		(8,046)	(8,046)	(8,046)
- Research & Development Expenditure		(35,984)	(35,984)	(14,289)
- Overprovision from prior year		(40,755)	(40,755)	6,894
Income tax expense relating to ordinary activities		2,873,128	2,873,158	898,438
Current tax liabilities		2,830,908	2,830,908	621,978
Non-Current tax liabilities		1,627,472	1,627,502	1,450,760
Note 6 - RECEIVABLES				
Current -				
Trade and Sundry Debtors		4,743,677	4,743,677	1,329,700
Grower's Loans	1(f)	5,670,224	5,670,224	544,661
Total Current receivables		10,413,901	10,413,901	1,874,361

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

The directors have made enquiry as to the ability of the Underwriter to complete its obligations in respect of the Underwriting Agreement (Note 26) for the year ending 30 June 2004, which includes payment of the receivable of $10,714,000 included in current and non current growers loans.

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

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

Included in the above are aggregate amounts receivable from the following related parties:				
Directors		-	-	47,443
Other - Director related entities		-	-	39,536
Non-Current -				
Loan to Subsidiary		**-**	**2,740,120**	-
Growers Loans	1(f)	**5,457,805**	**5,457,805**	813,379
		5,457,805	**8,197,925**	813,379
Included in the above are aggregate amounts receivable from the following related parties:				
Directors		-	-	180,047
Other - Director related entities		-	-	150,039

Note 7 - INVENTORIES

Current - at cost				
Nursery Stock and stores		**80,820**	**80,820**	410,371

Note 8 - OTHER

Current				
Security deposits and operating prepayments		**245,233**	**245,233**	159,554
Prepayments Underwriting Fees	26	**550,000**	**550,000**	-
Total Current Other		**795,233**	**795,233**	159,554
Non Current				
Prepayments Underwriting Fees		**641,667**	**641,667**	-
		641,667	**641,667**	
Intangible Assets	1(p)	**175,866**	**175,866**	-
Movements during the year:				
Beginning of year		**-**	**-**	-
Additions		**219,833**	**219,833**	-
Amortisation		**43,967**	**43,967**	-
End of year		**175,866**	**175,866**	-

Note 9 - SELF GENERATING AND REGENERATING ASSETS

Paulownia Trees in the following locations in Queensland:	1(d)			
Project 1 - Wooroolin and Kumbia		**280,000**	**280,000**	301,600
Project 2 - Kumbia, Island Creek and Palm Range		**620,416**	**620,416**	475,832
Project 3 - Island Creek, Riverbend and Austin Downs		**3,765,160**	**3,765,160**	3,763,950
Project 4 - Austin Downs		**29,864**	**29,864**	31,440
Project 5 - Austin Downs		**29,864**	**29,864**	-
Project 6 - Austin Downs		**8,386**	**8,386**	7,860
		4,733,690	**4,733,690**	4,580,682

The Directors valuation has been confirmed as reasonable by Mr Robin Yule (BSc. Forestry), of Yulebar Enterprises, Project Forester. Robin is appointed as the key person on the company's Australian Financial Services Licence.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

Note 9 - SELF GENERATING AND REGENERATING ASSETS (Continued)

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

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

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

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

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

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

(iv) The pre tax real rate at which the net cash flows are discounted are normally in the range of 5% to 25%, where 5% is after the first harvest in year 8 and 25% is 7 years before the first harvest in year 8. In this year, due to climatic conditions and confirmed by the valuer (refer Note 1 (d)), only half of the calculated increment for the year, based on the application of the stated discount rates, was taken into account.

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

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Note 10 - OTHER FINANCIAL ASSETS				
Shares in Subsidiary		**-**	**100**	-
Quality Land Holdings Ltd is a 100% subsidiary				
Note 11 - LAND, PROPERTY, PLANT AND EQUIPMENT				
Land				
Beginning of year		**-**	-	-
Land Purchased at cost		**2,373,082**	-	-
Land Development Costs		**330,870**	-	-
End of year		**2,703,952**	-	-

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

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

	Consol 2004	Parent 2004 $	Parent 2003 $
Leasehold Improvements - At cost	**423,180**	**423,180**	419,734
Accumulated Amortisation	**(128,811)**	**(128,811)**	(93,624)
	294,369	**294,369**	326,110
Plant and Equipment - At cost	**4,892,514**	**4,892,514**	4,396,465
Accumulated Depreciation	**(2,887,833)**	**(2,887,833)**	(2,507,667)
	2,004,681	**2,004,681**	1,888,798
Plant and Equipment - Under finance lease	**261,094**	**261,094**	204,765
Accumulated Amortisation	**(116,877)**	**(116,877)**	(76,690)
	144,217	**144,217**	128,075
Total Property, Plant & Equipment	**8,280,740**	**5,576,788**	5,020,964
Total Accumulated Depreciation/Amortisation	**(3,133,521)**	**(3,133,521)**	(2,677,981)
Net Carrying Value of Property, Plant & Equipment	**5,147,219**	**2,443,267**	2,342,983

	Note	Consol 2004	Parent 2004 $	Parent 2003 $

Note 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Leasehold Improvements				
Movements during the year:				
Beginning of year		**326,110**	**326,110**	364,258
Additions		**3,446**	**3,446**	-
Amortisation		**(35,187)**	**(35,187)**	(38,148)
End of year		**294,369**	**294,369**	326,110
Plant and Equipment				
Movements during the year:				
Beginning of year		**1,888,798**	**1,888,798**	2,309,029
Additions		**527,942**	**527,942**	51,444
Disposals		**(31,893)**	**(31,893**	(24,474)
Depreciation		**(380,166)**	**(380,166)**	(447,201)
End of year		**2,004,681**	**2,004,681**	1,888,798
Plant and Equipment - Leased				
Movements during the year:				
Beginning of year		**128,075**	**128,075**	168,381
Additions		**56,329**	**56,329**	-
Amortisation		**(40,187)**	**(40,187)**	(40,306)
End of year		**144,217**	**144,217**	128,075
Assets pledged as security - Net Carrying Value	24	**382,693**	**382,693**	524,119

Assets pledged as security for G E Capital Australia:
Farming and agricultural equipment owned at 30 June 2001

Note 12 - PAYABLES

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Current -				
Trade Creditors and accruals - Unsecured		**2,112,734**	**2,134,075**	764,885
Included in the above are aggregate amounts payable to the following related parties:				
Directors and related parties		**57,620**	**57,620**	-

Note 13 - PROVISIONS

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Current -				
Dividend Declared & Payable				
Opening Balance at 30 June, 2003		**426,520**	**426,520**	-
Dividend declared and provided for during the year		**853,040**	**853,040**	426,520
Dividend paid during the year		**(426,520)**	**(426,520)**	-
Closing Balance at 30 June, 2004		**853,040**	**853,040**	426,520
Aggregate employee benefits		**82,030**	**82,030**	56,391
		935,070	**935,070**	482,911
Total number of Employees at year end		**49**	**49**	40

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

	Note	Consol 2004	Parent 2004 $	Parent 2003 $

Note 14 - INTEREST BEARING LIABILITIES

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Current -				
Credit Cards		**25,563**	**25,563**	6,822
Insurance Premium Funding		**139,093**	**139,093**	-
Secured Borrowings:				
Finance Facility	25	**361,176**	**361,176**	392,090
Hire Purchase Liabilities		**60,193**	**60,193**	45,400
		586,025	**586,025**	444,312
Non Current -				
Secured Borrowings:				
Convertible Notes	29	**5,658,800**	**5,658,800**	-
Finance Facility	25	**-**	**-**	361,177
Hire Purchase Liabilities		**92,862**	**92,862**	105,957
		5,751,662	**5,751,662**	467,134

Hire Purchase Liabilities are secured by bill of sale over the assets financed and a registered charge.

Note 15 - OTHER LIABILITIES

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
Current -				
Prepaid Plantation Licence & Management fees		**1,504,343**	**1,504,343**	1,031,330
Growers Debts owing to third party		**40,549**	**40,549**	221,260
Underwriting Fees	26	**1,283,333**	**1,283,333**	-
		2,828,225	**2,828,225**	1,252,590
Non Current -				
Underwriting Fees		**641,667**	**641,667**	-

Note 16 - RETAINED PROFITS AND TOTAL EQUITY

	Note	Consol 2004	Parent 2004 $	Parent 2003 $
(a) Retained Profits				
Balance at beginning of year		**3,938,508**	**3,938,508**	2,242,106
Net Profit		**6,974,884**	**6,974,954**	2,122,922
Dividends		**(853,040)**	**(853,040)**	(426,520)
Balance at the end of year		**10,060,352**	**10,060,422**	3,938,508
(b) Total Equity				
Balance at beginning of year		**6,858,761**	**6,858,761**	5,135,084
Total changes in equity recognised in the statement of financial performance		**6,974,884**	**6,974,954**	2,122,922
Transactions with owners as owners:				
Contributions of equity		-	-	27,275
Dividends		**(853,040)**	**(853,040)**	(426,520)
Balance at the end of year		**12,980,605**	**12,980,675**	6,858,761

Note 17 - CONTRIBUTED EQUITY

	Note	Consol 2004	Parent 2004	Parent 2003
Issued Shares (Number of shares)				
"A" Class Shares fully paid				
Opening Balance		**17,000,000**	**17,000,000**	17,000,000
Converted to Ordinary Shares		**(17,000,000)**	**(17,000,000)**	-
Balance Year End		-	-	17,000,000
Ordinary Shares fully paid				
Opening Balance		**4,325,995**	**4,325,995**	4,325,995
"A" Shares converted to Ordinary		**17,000,000**	**17,000,000**	-
Balance Year End		**21,325,995**	**21,325,995**	4,325,995
Total shares issued		**21,325,995**	**21,325,995**	21,325,995

During the year all "A" Class Shares were converted to Ordinary shares in accordance with a resolution passed by shareholders at the Annual General Meeting held on 28 November 2003.

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

2003	**2003 $ Value**	**2003 Units**
Opening balance	**2,892,978**	21,276,405
49,590 Ordinary shares issued at 55 cents per share under prospectus dated 30 November 2001	**27,275**	49,590
Closing Balance	**$ 2,920,253**	21,325,995

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

The Underwriting Fee recorded as an expense and prepaid fees will be converted to issued capital in the next financial year.

Note 18 - DIVIDEND IMPUTATION

	Consol 2004 $	Parent 2004 $	Parent 2003 $
Dividends that have or will be franked	**853,040**	**853,040**	426,520
Amount per share	**4 cents**	**4 cents**	2 cents
Applicable Tax Rate	**30%**	**30%**	30%
Balance of franking account at end of year @ 30%	**454,842**	**454,842**	150,151

Note 19 - COMMITMENTS FOR EXPENDITURE

Operating Leases

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

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

	Consol 2004	Parent 2004	Parent 2003
- not later than one year	**742,064**	**1,592,064**	622,528
- later than one year, not later than five years	**2,739,562**	**6,139,562**	2,213,611
- later than five years	**6,399,421**	**14,899,421**	6,875,542
	9,881,047	**22,631,047**	9,711,681

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

	Note	Consol 2004 $	Parent 2004 $	Parent 2003 $
Note 19 - COMMITMENTS FOR EXPENDITURE (Continued)				
Finance Leases				
Payable				
- not later than one year		**73,347**	**73,347**	56,120
- later than one year, not later than five years		**92,862**	**92,862**	114,233
		166,209	**166,209**	170,353
Less Future Finance Charges		**(13,154)**	**(13,154)**	(18,996)
Total Lease Liability	13	**153,055**	**153,055**	151,357

Note 20 - EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 June 2004 a further 1,481,142 Convertible Notes of $1 each have been issued making the total on issue $7,139,942.

Note 21 - CONTINGENT LIABILITIES

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

Note 22 - RELATED PARTY TRANSACTIONS

(i) Transactions with directors and their director related entities and other related parties during the year ended 30 June 2004 are on normal commercial terms and conditions no more favourable than those available to other parties, unless indicated.

	Consol 2004 $	Parent 2004 $	Parent 2003 $
1. David Michael Gold, a Director, purchased 50 woodlots in Project No. 6 for $274,700 including GST. Queensland Paulownia Forests Ltd provided finance for the purchase on similar terms made available to other non-related investors. The loan was sold in July 2003 to an independent third party financier together with other Grower Loans.			
Loan Balance at 30 June, 2004	-	-	189,575
2. Elizabeth Hutchinson, a Director, purchased 10 woodlots in Project No. 6 for $54,940 including GST. Queensland Paulownia Forests provided finance for the purchase on similar terms made available to other non-related investors. The loan was sold in July 2003 to an independent third party financier together with other Grower Loans. A further 15 woodlots were purchased this financial year in Project No.8 for $82,500 and paid for in full			
Loan Balance at 30 June, 2004	-	-	37,915

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	Note	Consol 2004 $	Parent 2004 $	Parent 2003 $

Note 22 - RELATED PARTY TRANSACTIONS (Continued)

3. Marlene Gold, the wife of a Director, purchased 50 woodlots in Project No. 6 for $274,700 including GST. Queensland Paulownia Forests Ltd provided finance for the purchase on similar terms have been made available to other non related investors.The loan was sold in July 2003 to an independent third party financier together with other Grower Loans.
A further 70 woodlots were purchased this financial year in Project No.8 for $385,000 and paid for in full

	Consol 2004 $	Parent 2004 $	Parent 2003 $
Loan Balance at 30 June, 2004	**-**	**-**	189,575

5. United Capital Finance Pty Ltd of which Blake Ammit is a director and shareholder received fees and interest during the year in connection with the arrangement of a loan facility for the company to be provided by United Capital Finance Pty Ltd. Fees paid were at rates applicable to other clients of United Capital.

	Consol 2004 $	Parent 2004 $	Parent 2003 $
Fees	**5,513**	**5,513**	16,767

6. Bex Gold, daughter of a Director, is employed by the company as Marketing Manager.

	Consol 2004 $	Parent 2004 $	Parent 2003 $
Salary package	**91,554**	**91,554**	94,136

7. Danbek Enterprises Ltd, a company associated with Allan Hutchinson, husband of a Director, has provided services in relation to the Research and Development programme

	Consol 2004 $	Parent 2004 $	Parent 2003 $
Consultancy Services	**87,420**	**87,420**	53,360

8. Queensland Paulownia Forests Limited (QPFL) acts as custodian for Queensland Forestry Trust (QFT), a public trading trust which invests in woodlots in QPFL on behalf of QFT's investors. QPFL purchases annuities on behalf of QFT to provide income return to the investors and maintenance fees to QPFL.

	Consol 2004 $	Parent 2004 $	Parent 2003 $
	112,696	**112,696**	362,364

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

Note 22 - RELATED PARTY TRANSACTIONS (Continued)

(ii) Transactions with specified executive-related entities during the year ended 30 June 2004 are on normal commercial terms and conditions no more favourable than those available to other parties, unless indicated.

There have been no transactions during the year (2003- nil)

(iii) Transactions within the wholly owned group.
Transactions within the wholly owned group have been eliminated.

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

2004	2003
David Gold	David Gold
Elizabeth Hutchinson	Elizabeth Hutchinson
Graham Fayle	Graham Fayle
Leon Lewandowski	Leon Lewandowski
Blake Ammit (Resigned 16/07/03)	Blake Ammit

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

	1/7/03 Opening number	Movement	30/6/04 Closing number
Specified Directors			
David Gold	13,250,000	Nil	13,250,000
Elizabeth Hutchinson	750,000	Nil	750,000
Graham Fayle	-	Nil	-
Leon Lewandowski	3,000	Nil	3,000
Total	14,003,000	Nil	14,003,000

Specified Executives
No shares were held by specified executives throughout the year. (2003- nil)

QPFL

Note 23 - SPECIFIED DIRECTORS & EXECUTIVES REMUNERATION

(i) Specified Directors Remuneration

2004

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

AGGREGATE SPECIFIED DIRECTORS TOTAL $517,077

2003

Name	**David Gold**	**Elizabeth Hutchinson**	**Graham Fayle**	**Leon Lewandowski**	**Blake Ammitt**
Position	CEO/Managing Director	Finance & Compliance Director	Operations Director	Non-executive Director	Non-executive Director
Primary benefit (salaries and fees)	120,000	125,270	108,470	57,948	15,000
Non monetary benefits	25,242	3,419	13,382	-	-
Post employment benefits (superannuation)	-	-	-	-	-
TOTAL	**145,242**	**128,689**	**121,852**	**57,948**	**15,000**

AGGREGATE SPECIFIED DIRECTORS TOTAL $468,731

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

Note 23 - SPECIFIED DIRECTORS & EXECUTIVES REMUNERATION (continued)

(i) Specified Executives Remuneration

2004

Name	Bex Gold	Hugh Witten	Stephen Szych	Robert Knight
Position	Marketing Manager	Operations Managing	Finance & Administration Manager Commenced 14/1/04	Finance & Administration Manager Resigned 3/10/03
Primary benefit (salaries and fees)	72,865	70,000	30,000	27,359
Cash Bonus	2,500	8,570	-	2,500
Non monetary benefits	9,407	1,987	3,832	3,787
Post employment benefits (superannuation)	6,782	6,300	2,363	1,530
TOTAL	**91,554**	**86,857**	**36,195**	**35,176**

AGGREGATE SPECIFIED DIRECTORS TOTAL $249,782

2003

Name	Bex Gold	Hugh Witten	Stephen Szych	Robert Knight
Position	Marketing Manager	Operations Managing	Finance & Administration Manager Commenced 14/1/04	Finance & Administration Manager Resigned 3/10/03
Primary benefit (salaries and fees)	80,592	71,346	-	66,250
Cash Bonus	1,900	6,500	-	-
Non monetary benefits	11,644	1,987	-	11,534
Post employment benefits (superannuation)	-	6,421	-	5,963
TOTAL	**94,136**	**86,254**	**-**	**83,747**

AGGREGATE SPECIFIED DIRECTORS TOTAL $264,137

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

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

QPFL

	Notes	Consol 2004 $	Parent 2004 $	Parent 2003 $

Note 24 - AUDITORS REMUNERATION

	Notes	Consol 2004 $	Parent 2004 $	Parent 2003 $
Audit and review of financial reports		**25,000**	**25,000**	15,000
Other Services		**74,761**	**74,761**	57,187
		99,761	**99,761**	72,187

Note 25 - FINANCING FACILITIES

	Notes	Used $	Unused $
GE Capital Australia facility The company has an Equipment Finance Facility with GE Capital Australia limited to $1,500,000. The facility is secured by the company's Farming and Agricultural equipment at 30th June, 2001. The loan is payable monthly at an interest rate of 8.73% and expires in June 2005.	15	361,176	1,138,824

Credit Standby Arrangement

Bank overdraft facilities are provided by the company's bankers on an informal basis, whereby the bank will not dishonour any cheques presented on the company's cheque accounts, given that, at any one point in time one of the company's bank accounts has sufficient funds to cover the overdraft of the other bank account. No formal overdraft limit has been applied for or granted by the bank at 30th June 2004.

Note 26- UNDERWRITING AGREEMENT

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

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

Underwriting Fees will be satisfied by way of an issue of shares to the Underwriter at 55 cents per share . As security for the performance of the obligations of the Underwriter the shares will be secured by a fixed charge and shares released from the charge over the period covered by the underwriting agreement.

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

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

Note 27- CONTROLLED ENTITIES

Quality Land Holdings Ltd, incorporated in Australia, is a 100% subsidiary of Queensland Paulownia Forests Ltd.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

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

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

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

2004	NON INTEREST BEARING $	1 YEAR OR LESS $	OVER 1 TO 5 YRS $	FLOATING INTEREST RATE $	TOTAL $	FIXED RATE %	FLOATING RATE %
Financial Assets:							
Term Deposits	-	2,713,831	-	-	2,713,831	4.35	-
Cash at Bank	1,300	-	-	133,037	134,337	-	3.25
Trade & Sundry Debtors	4,574,379	-	-	-	4,574,379	-	-
Growers Loans	-	5,569,419	5,457,805	-	11,027,224	5.14	-
	4,575,679	8,283,250	5,457,805	133,037	18,449,771		
Financial Liabilities:							
Accounts Payable	2,316,428	-	-	-	2,316,428	-	-
Premium Funding	-	139,093	-	-	139,093	2.92	-
Credit Cards	-	25,563	-	-	25,563	-	15.53
Finance Facility	-	361,176	-	-	361,176	8.73	-
Convertible Notes	-	-	5,658,800	-	5,658,800	9.28	-
Hire Purchase Liability	-	60,193	92,862	-	153,055	7.55	-
	2,316,428	586,025	5,751,662	-	8,654,115		
Net Financial Assets (Liabilities)	2,259,251	7,697,225	(293,857)	133,037	9,795,656		

2003	NON INTEREST BEARING $	1 YEAR OR LESS $	OVER 1 TO 5 YRS $	FLOATING INTEREST RATE $	TOTAL $	FIXED RATE %	FLOATING RATE %
Financial Assets:							
Term Deposits	-	2,130,000	-	-	2,130,000	4.60	-
Cash at Bank	1,300	-	-	30,701	32,001	-	3.65
Sundry Debtors	1,329,700	-	-	-	1,329,700	-	-
Growers Loans	-	544,661	813,379	-	-1,358,040	11.00	-
	1,331,000	2,674,661	813,379	30,701	4,849,741		
Financial Liabilities:							
Accounts Payable	764,885	-	-	-	764,885	-	-
Credit Cards	-	6,822	-	-	6,822	-	15.53
Finance Facility	-	392,090	361,177	-	753,267	8.73	-
Hire Purchase Liability	-	45,400	105,957	-	151,357	8.12	-
	764,885	444,312	467,134	-	1,676,331		
Net Financial Assets (Liabilities)	566,115	2,230,349	346,245	30,701	3,173,410		

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

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Note 29- CONVERTIBLE NOTES

In accordance with a Prospectus dated 3 December 2003, 5,658,800 Convertible Notes ("Notes") of $1 each have been issued at Balance date. These Notes are quoted on the Bendigo Stock Exchange. A maximum of $9,000,000 will be issued. Closing date for subscriptions is 3 January 2005 or when maximum subscription is achieved.

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

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

Interest on the Notes is paid quarterly in arrears at 9.28% per annum for quarters ending 31 March, 30 June, 30 September and 31 December. First quarter interest paid was 31 March 2004.

Interest paid and accrued on Notes for year ending 30 June 2004 is $127,734

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

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

The Notes are secured by way of

(i) A mortgage over the property, water rights and improvements to the land owned by Quality Land Holdings Pty Ltd at Forbes, New South Wales.

(ii) A charge over the assets of Quality Land Holdings Pty Ltd

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

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

Note 30- OPTIONS

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

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

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

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

Note 31 - SEGMENT INFORMATION

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

Note 32 - COMPARATIVE INFORMATION

The full year financial report does not include comparative information for the consolidated results as Accounting Standard AASB 1029 has been applied for the first time for the full financial year.

Note 33 - CORPORATE INFORMATION

Queensland Paulownia Forests Ltd is an unlisted public company incorporated and domiciled in Australia. The registered office and the principal place of business is located at Level 5, Gateway Building, 50 Appel Street, Surfers Paradise, Queensland. The number of employees at 30 June 2004 was 49. (2003- 40)

Note 34- ECONOMIC DEPENDENCY

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2004

Note 35- AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

Australian equivalents to International Financial Reporting Standards (AIFRS) will be adopted in the financial report for the year ending 30 June 2006 and the comparative information presented in that report for the year ending 30 June 2005. In preparation for the transition, opening balances as at 1 July 2004 for the comparative year ending 30 June 2005 will be converted to AIFRS in accordance with new accounting standard AASB 1 "First Time Adoption of Australian International Financial Reporting Pronouncements".

The transition to AIFRS is being managed by the members of the Audit Committee of the company who will commission the necessary research into the likely impact on the statements of financial performance and position of the company and the group and will require staff required to implement the changes to undertake appropriate training. Where required the members will seek professional assistance with the research training and implementation.

The key differences in accounting policies expected to arise from adoption of AIFRS are listed as follows

Income Tax

AASB 112 "Income Tax" requires all income tax balances to be calculated using the comprehensive balance sheet liability method.

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

Inventories

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

Self generating and regenerating assets

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

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

Property, Plant & Equipment

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

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

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

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

Intangible Assets

AASB 138 "Intangible Assets" generally requires derecognition of all items that do not qualify as identifiable intangible assets.

Capitalised borrowing costs fall into that category and consequently the unamortised carrying value of the asset will be written as an adjustment to opening retained earnings on the adoption of IFRS.

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. the financial statements and notes, set out on pages 4 to 28, are in accordance with the Corporations Act 2001:

   a) comply with Accounting Standards and the Corporations Regulations 2001; and

   b) give a true and fair view of the financial position as at 30th June, 2004 and of the performance for the year ended on that date of the company

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Elizabeth Hutchinson – Director

Dated at Surfers Paradise this 27th day of September, 2004.

INDEPENDENT AUDIT REPORT

To the members of Queensland Paulownia Forests Ltd

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Queensland Paulownia Forests Ltd for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of 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 including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and 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.

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INDEPENDENT AUDIT REPORT (Continued)

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of Queensland Paulownia Forests Ltd is in accordance with:

(a) the Corporations Act 2001, including:

i) giving a true and fair view of the company's financial position as at 30th June 2004 and of its performance for the year ended on that date; and

ii) complying with Accounting Standards and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

PKF - Chartered Accountants
A Brisbane Partnership

J E F Frayne
Partner

Dated at Brisbane this 27th day of September 2004

CORPORATE GOVERNANCE

This report outlines the Company's main corporate Governance practices in place during the financial year ended 30 June 2004.

Board Composition

The Board comprises four executive directors. They are David Michael Gold, Elizabeth Hutchinson, Graham Fayle and Leon Lewandowski. The profiles of the directors are on pages 12 and 13 of this report.

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

Directors Responsibilities

In accordance with the Corporations Act 2001 each director must act in good faith, in what he believes to be in the best interest of the Company and only exercise his powers for a proper purpose.

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

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

Compliance Committee

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

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

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

Dealings in Securities

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

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

Meetings of the Board

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

Board Information

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

Audit Committee

The audit committee comprises two directors being Elizabeth Hutchinson and Leon Lewandowski. The members are appropriately qualified to discharge their responsibilities and functions. An Audit Charter sets out these responsibilities and functions.

The Audit Committee assists the Board in fulfilling its corporate governance responsibilities by monitoring and reviewing the integrity of financial statements, internal financial controls, and the independence, objectivity and effectiveness of the external auditors.
The Committee meets as frequently as required but must not meet less than twice per year. All Directors receive a copy of the Audit Committee paper for each meeting of the Committee

The Committee is authorised to investigate any activity of the Company and its controlled entities, in accordance with the Charter and is authorised to make recommendations to the Board regarding appropriate actions resulting from such investigations. The Committee has unrestricted access to executive management, all employees and all company records, tax and other financial advisers, legal advisers, and external auditors.
The Committee must review, and challenge where necessary the actions and judgment of management in relation to, all regular financial reports prepared for release to regulators and to the public, including half yearly and annual financial reports, before making appropriate recommendations to the Board. The Chair of the Committee must attend the Annual General Meeting and be available to respond to any shareholder questions on the Committee's activities and areas of responsibility.

SHAREHOLDER STATISTICS

As 27 October 2004

(a) There were 454 registered holders of the unlisted issued ordinary shares in the Company. Every ordinary share ranks equally on voting. Every shareholder present in person or by proxy has one vote on a show of hands and on a poll has one vote for each share held.

(b) There is 1 holder of options over ordinary shares in the Company. The options do not have any voting rights.

(c) **Distribution Schedule**

RANGE	NO. OF HOLDERS	%	SHARES	%
1 - 1,000	1	.22	739	-
1,001 - 5,000	10	2.20	32,978	16
5,001 - 10,000	320	70.48	2,105,761	9.87
10,001 - 100,000	117	25.77	3,251,850	15.25
100,001 and over	6	1.32	15,934,667	74.72
ALL RANGES	454	100.00	21,325,995	100.00

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

NAME	NO. OF SHARES	% OF TOTAL HOLDINGS
DAVID MICHAEL GOLD	13,250,000	62.13
DAVID CLIVE WALTER	1,034,667	4.85
ELIZABETH HUTCHINSON	750,000	3.51
SHELLPRO SUPER PTY LTD	500,000	2.34
MICHAEL V DOHERTY PTY LTD	200,000	.93
GRAHAM & GLYNN HELEN TAYLOR	200,000	.93
BENKO SANTIC	100,000	.46
WANG KWOK	100,000	.46
PAUL JOHN VICE	90,000	.42
DAVID & BEVERLY PFEILER	80,000	.37
	16,304,667	76.40

CONVERTIBLE NOTE STATISTICS

(e) There were 463 holders of the 8,088,942 Convertible Notes issued in the Company. These have no voting rights. The Notes are listed on the Bendigo Stock Exchange.

(f) **Distribution Schedule**

RANGE	NO. OF HOLDERS	%	CONVERTIBLE NOTES	%
1 - 1,000	-	-		-
1,001 - 5,000	121	26.13	605,000	7.48
5,001 - 10,000	154	33.26	1,478,800	18.28
10,001 - 100,000	182	39.31	4,915,142	60.76
100,001 and over	6	1.30	1,090,000	13.48
ALL RANGES	463	100.00	8,088,942	100.00

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

NAME	NO. OF CONVERTIBLE NOTES	% OF TOTAL HOLDINGS
RYAHED PTY LTD	200,000	2.47
STEPHEN & SHELAGH HYDE	200,000	2.47
MARGARET AINSWORTH	200,000	2.47
MAAKU PTY LTD	200,000	2.47
DAVID CLIVE WALTER	150,000	1.85
FRANK & MARIAN LATHAM	140,000	1.73
LESLIE MICHAEL PAGE	100,000	1.24
DOUGLAS BADEN SAWTELL	100,000	1.24
MIPEGU PTY LTD	100,000	1.24
J L PATRIACHE PTY LTD	100,000	1.24
	1,490,000	18.42

Queensland Paulownia Forests Limited

Annual Report

year ended 30 June 2004

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