



Queensland Paulownia Forests Limited
ABN 49 071 625 477

Financial Statements
For the Half Year ended 31 December 2004

Queensland Paulownia Forests Limited ACN 071 625 477
Level 5, Gateway Building, 50 Appel Street, Surfers Paradise Qld 4217

Queensland Paulownia Forests Limited
ABN 49 071 625 477

Table of Contents

Directors' Report	3
Lead Auditors Independence Declaration	5
Statement of Financial Performance	6
Statement of Financial Position	7
Statement of Cash Flows	8
Notes to and Forming Part of the Financial Statements for the Half-Year Ended 31 December, 2004	9
Directors' Declaration	15
Independent Review Report	16

Queensland Paulownia Forests Limited
ABN 49 071 625 477

Directors' Report

Your directors present the following report for the six month period ended 31 December 2004.

Directors of the Responsible Entity

The names of the Directors of the Responsible Entity during or since the end of the financial half-year ending 31 December 2004 are as follows:

Name	Period of Directorship	Area of Responsibility
David Michael Gold	Appointed 26 April 2001	Director – Sales and Information Technology and Chairman of the Board
Elizabeth Hutchinson	Appointed 6 Sept. 2001	Director – Compliance and Administration and Company Secretary
Graham Fayle	Appointed 6 Sept. 2001	Director - Operations
Leon Lewandowski	Appointed 2 August 1999	External Director, Company Secretary and Internal Member of the Compliance Committee

Review of operations

The operations of the company during the period remained unchanged being the management of Paulownia plantations.

During the period the company incorporated three wholly owned subsidiaries disclosed in note 5.

Results of operations

The consolidated operating net loss of the consolidated entity for the six month period after income tax was \$8,609,578 loss (December 2003: \$825,271 loss)

The above result included a fundamental error of \$6,071,150 which increased the loss after income tax disclosed in note 4 relating to the year ended 30 June 2004.

Queensland Paulownia Forests Limited
ABN 49 071 625 477

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

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2004.

Signed in accordance with a Resolution of the Directors of the Responsible Entity, made on this day of March 2005.

David Gold
Director

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

To the directors of Queensland Paulownia Forests Limited:

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2004 there have been:

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

KPMG

Paul Steer
Partner

Place: Gold Coast

Date: March 2005

Queensland Paulownia Forests Limited
ABN 49 071 625 477

Statement of Financial Performance
For the Half-Year Ended 31 December 2004

		Consolidated	
		For Half Year	For Half Year
		31 December	31 December
		2004	2003
	Note	\$	\$
<i>Revenue from ordinary activities</i>		2,270,463	1,916,729
<i>Net increment (write down) in market value of Paulownia trees</i>		(78,310)	270,438
<i>Total revenue</i>		2,192,153	2,187,167
<i>Changes in inventories</i>		125,598	72,558
<i>Raw materials and consumables used</i>		326,408	228,713
<i>Employee expenses</i>		1,035,650	914,711
<i>Depreciation and amortisation</i>		218,535	218,362
<i>Borrowing costs</i>		842,336	45,342
<i>Other expenses from ordinary activities</i>	3	3,114,109	1,919,746
<i>Operating Profit (loss) from Ordinary Activities before Income Tax Expense</i>		(3,470,483)	(1,212,265)
<i>Income tax benefit</i>		932,055	386,994
<i>Operating Profit (loss) from Ordinary Activities after Income Tax Expense</i>		(2,538,428)	(825,271)
<i>Less fundamental error net of income tax</i>	4	(6,071,150)	-
<i>Net profit (loss) attributable to members of the parent entity</i>		(8,609,578)	(825,271)

The Statement of financial performance is to be read in conjunction with the attached notes.

Queensland Paulownia Forests Limited
ABN 49 071 625 477

Statement of Financial Position
As at 31 December 2004

	Consolidated	
	31 December 2004	30 June 2004
	\$	\$
Current assets		
<i>Cash</i>	4,496,438	2,848,167
<i>Receivables</i>	995,167	10,413,901
<i>Inventories</i>	206,418	80,820
<i>Other</i>	606,792	795,233
Total current assets	6,304,815	14,138,121
Non current assets		
<i>Receivables</i>	108,998	5,457,805
<i>Self generating and regenerating assets</i>	4,655,380	4,733,690
<i>Property, plant and equipment</i>	6,160,187	5,147,219
<i>Intangible assets</i>	-	175,866
<i>Other</i>	-	641,667
Total non current assets	10,924,565	16,156,247
Total Assets	17,229,380	30,294,368
Current liabilities		
<i>Payables</i>	825,623	2,112,734
<i>Interest bearing liabilities</i>	192,976	586,025
<i>Tax liabilities</i>	-	2,830,908
<i>Provisions</i>	79,841	935,070
<i>Other</i>	1,556,134	2,828,225
Total current liabilities	2,654,574	9,292,962
Non current liabilities		
<i>Interest bearing liabilities</i>	9,494,072	5,751,662
<i>Deferred tax liabilities</i>	709,707	1,627,472
<i>Other</i>	-	641,667
Total non current liabilities	10,203,779	8,020,801
Total Liabilities	12,858,353	17,313,763
Net Assets	4,371,027	12,980,605
Equity		
<i>Contributed equity</i>	2,920,253	2,920,253
<i>Retained earnings</i>	1,450,774	10,060,352
Total Equity	4,371,027	12,980,605

The Statement of financial position is to be read in conjunction with the attached notes.

Queensland Paulownia Forests Limited
ABN 49 071 625 477

Statement of Cash Flows
For the Half-Year Ending 31 December 2004

	Consolidated	
	For Half Year 31 December 2004 \$	For Half Year 31 December 2003 \$
<i>Cash flows from operating activities</i>		
<i>Receipts from growers</i>	7,458,107	3,832,289
<i>Payments to suppliers and employees</i>	(5,867,091)	(3,136,632)
<i>Interest received</i>	142,854	80,761
<i>Interest paid</i>	(666,740)	(45,342)
<i>Income taxes paid</i>	(471,610)	-
<i>GST recovered (paid)</i>	(336,879)	(419,306)
<i>Net cash provided by operating activities</i>	258,641	311,770
<i>Cash flows from investing activities</i>		
<i>Payment for property, plant and equipment</i>	(855,509)	(2,942,736)
<i>Proceeds from sale of plant and equipment</i>	1,800	12,912
<i>Net cash used in investing activities</i>	(853,709)	(2,929,824)
<i>Cash flows from financing activities</i>		
<i>Dividends paid</i>	(853,040)	(426,520)
<i>Proceeds (repayments) of borrowings</i>	(570,821)	1,447,848
<i>Convertible note issue costs</i>	-	(74,604)
<i>Proceeds from convertible notes</i>	3,667,200	-
<i>Net cash provided by financing activities</i>	2,243,339	946,724
<i>Net increase (decrease) in cash held</i>	1,648,271	(1,671,330)
<i>Cash at beginning of period</i>	2,848,167	2,162,002
<i>Cash at end of period</i>	4,496,438	490,672

The Statement of cash flows is to be read in conjunction with the attached notes.

Queensland Paulownia Forests Limited
ABN 49 071 625 477

Notes to and Forming Part of the Financial Statements
for the Half-Year Ended 31 December 2004

1. Statement of Significant Accounting Policies

Basis of Preparation of Half Year Financial Statements

The half-year financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 Interim Financial Reporting, the recognition and measurement requirements of applicable AASB Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 30 June 2004 Annual Financial Report and any public announcements by Queensland Paulownia Forests Limited during the half-year ended 31 December 2004 in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical cost except where otherwise stated.

The accounting policies are consistent with those applied in the 30 June 2004 Annual Financial Report.

The half-year financial report does not include full note disclosures of the type normally included in the annual financial report.

2. Segment Information

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

3. Other expenses from ordinary activities

	Consolidated	
	December	December
	2004	2003
	\$	\$
<i>Commissions</i>	343,789	17,696
<i>Contracting fees</i>	816,426	500,039
<i>Bad and doubtful debts</i>	64,080	56,365
<i>Insurance</i>	209,330	218,304
<i>Rent and outgoings</i>	330,203	308,282
<i>Legal fees</i>	219,744	95,930
<i>Printing and stationary</i>	107,823	57,734
<i>Repairs and maintenance</i>	129,353	92,603
<i>Travel and accommodation</i>	130,542	44,635
<i>Fuel and oil</i>	169,648	152,545
<i>Other expenses from ordinary activities</i>	593,171	375,613
<i>Other expenses from ordinary activities</i>	<u>3,114,109</u>	<u>1,919,746</u>

Queensland Paulownia Forests Limited
ABN 49 071 625 477

4. Fundamental error

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

These contractual conditions have not yet been satisfied and accordingly, the directors consider there was a fundamental error in the preparation of the 30 June 2004 financial statements.

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

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

The restated financial information for the six month period ended 31 December 2004 and financial year ended 30 June 2004 are presented below as if the error had not been made:

	December 2004 \$ Restated	June 2004 \$ Restated
<i>Pro forma statement of financial performance</i>		
<i>Revenue from ordinary activities</i>	2,192,153	8,739,723
<i>Expenses from ordinary activities</i>	(5,662,636)	(7,564,783)
<i>Profit (loss) from ordinary activities before income tax expense</i>	(3,470,483)	1,174,940
<i>Income tax (expense)/benefit</i>	932,055	(271,206)
<i>Profit (loss) from ordinary activities after income tax expense</i>	(2,538,428)	903,734
<i>Restatement of retained profits/(accumulated losses)</i>		
<i>Retained profits at beginning of year as previously reported</i>	10,060,352	3,938,508
<i>Correction of fundamental error (net of tax)</i>	(6,071,150)	-
<i>Restated retained profits at beginning of year</i>	3,989,202	3,938,508
<i>Restated profit from ordinary activities after income tax expense</i>	(2,538,428)	903,734
<i>Dividends recognised during the year</i>	-	(853,040)
<i>Restated retained profits at end of year</i>	1,450,774	3,989,202

Queensland Paulownia Forests Limited
ABN 49 071 625 477

	December 2004 \$ Restated	June 2004 \$ Restated
4. Fundamental error (cont)		
<i>Restatement of items on the statement of financial position</i>		
<i>Receivables</i>		
<i>Balance at end of year as previously reported</i>	1,104,165	15,871,706
<i>Correction of fundamental error</i>	-	(10,714,000)
<i>Restated balance at end of year</i>	<u>1,104,165</u>	<u>5,157,706</u>
<i>Inventories</i>		
<i>Balance at end of year as previously reported</i>	206,418	80,820
<i>Correction of fundamental error</i>	-	138,795
<i>Restated balance at end of year</i>	<u>206,418</u>	<u>219,615</u>
<i>Other assets</i>		
<i>Balance at end of year as previously reported</i>	606,793	1,436,900
<i>Correction of fundamental error</i>	-	(1,191,667)
<i>Restated balance at end of year</i>	<u>606,793</u>	<u>245,233</u>
<i>Payables</i>		
<i>Balance at end of year as previously reported</i>	825,623	2,112,734
<i>Correction of fundamental error</i>	-	(974,000)
<i>Restated balance at end of year</i>	<u>825,623</u>	<u>1,138,734</u>
<i>Tax liabilities</i>		
<i>Balance at end of year as previously reported</i>	-	2,830,908
<i>Correction of fundamental error</i>	-	(2,601,922)
<i>Restated balance at end of year</i>	<u>-</u>	<u>228,986</u>
<i>Other liabilities</i>		
<i>Balance at end of year as previously reported</i>	1,556,133	3,469,892
<i>Correction of fundamental error</i>	-	(2,119,800)
<i>Restated balance at end of year</i>	<u>1,556,133</u>	<u>1,350,092</u>

5. Dividends

Dividends of \$853,040 provided for at 30 June 2004 were paid during the half year ended 31 December 2004 (2003: \$426,520).

Queensland Paulownia Forests Limited
ABN 49 071 625 477

6. Acquisition of controlled entities

The following 100% controlled entities were incorporated during the period:

Name	Date incorporated	Consolidated entity's interest	Contribution to consolidated net profit
QPFL Finance Pty Ltd	30 Sept. 2004	100%	\$3,172 loss
QPFL Milling Pty Ltd	9 Dec. 2004	100%	\$1,068 loss
QPFL Contract Services Pty Ltd	20 Dec. 2004	100%	\$1,068 loss

7. Events Subsequent to Reporting Date

International Financial Reporting Standards

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

This half-year financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ending on 31 December 2004.

Implementation Project

The Responsible Entity's board has established a formal project, monitored by a steering committee, to achieve transition to IFRS reporting, beginning with the half-year ended 31 December 2005. The implementation project consists of three phases: Assessment and Planning; Design; and Implementation.

Assessment and Planning Phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to AIFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase included:

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

The assessment and planning phase is still being completed as at 31 December 2004.

7. Events Subsequent to Reporting Date (continued)

International Financial Reporting Standards (continued)

Design Phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS.

The design phase incorporates:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The design phase is expected to be completed by 30 June 2005.

Implementation Phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the consolidated entity to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the consolidated entity has not yet commenced the implementation phase. However the consolidated entity expects this phase to be substantially complete by 30 June 2005.

Impact of Transition to IFRS

The differences between Australian Generally Accepted Accounting Principles (Australian GAAP) and IFRS identified to date as potentially having a significant impact on the consolidated entity's financial performance and financial position are summarised below.

The summary should not be taken as an exhaustive list of all differences between current Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not completed its project to assess the impact of adoption of IFRS and has not quantified the effects of all the differences discussed below. Where work streams have been completed, accounting policies have been determined and the transitional elections available under AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards have been considered.

7. Events Subsequent to Reporting Date (continued)

International Financial Reporting Standards (cont)

Any assessments made in respect of the transition to IFRS may require adjustment before inclusion in the first complete annual / half year financial report prepared in accordance with IFRS due to new or revised standards or interpretations, changes in the operations of the business, or additional guidance on the application of IFRS in a particular industry or to a particular transaction.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- AASB 1 provides an election whereby the requirements of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement are not required to be applied in the first comparative year under IFRS. First time adoption of these standards will apply at 1 July 2005;
- Certain financial assets will be classified as fair value and recognised in the statement of financial position at fair value, with changes in fair value during the period recognised in the statement of financial performance. However, we note that the IASB has issued The Fair Value Option, an exposure draft of proposed amendments to AASB 139 which would restrict the use of the fair value option. We will be monitoring these developments closely;
- The fair value of financial assets classified as “fair value through the profit and loss” will be measured at “bid” price and will exclude disposal costs. This may result in an increase or a decrease in value of the financial assets on the Statement of Financial Performance and the financial impact will depend on the difference between current net market values and “bid” prices;
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.
- Additional deferred tax assets and deferred tax liabilities will be recognised relating to revalued assets and compound financial instruments. Additional deferred tax assets may be recognised as a result of the change in recognition criteria to “probable” rather than “virtually certain” or “beyond reasonable doubt”.
- Impairment testing is required to be performed at an asset or cash generating unit level, which is at a lower level than performed previously. The impact of a more rigorous impairment test may result in additional write downs either on transition or on going.
- Revenue is only recognised when the significant risks and rewards have been transferred and the vendor has retained no continued managerial involvement or control over the goods. The amount of revenue recognised is discounted to present value where payment exceeds beyond normal credit terms.

Queensland Paulownia Forests Limited
ABN 49 071 625 477

Directors' Declaration

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

- 1 the financial statements and notes set out on pages 6 to 14, are in accordance with the Corporations Act 2001 including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2004 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - b) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- 2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a Resolution of the Directors made on this day of March 2005.

David Gold
Director

Independent Review Report to the Members of Queensland Paulownia Forests Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 6 to 15 for the Queensland Paulownia Forests Limited consolidated entity (the "consolidated entity") for the half-year ended 31 December 2004. The consolidated entity comprises Queensland Paulownia Forests Limited ("the company") and the entities it controlled during that half-year.

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

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows. We formed our statement on the basis of the review procedures performed, which were limited primarily to:

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

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

Independence

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

Qualification - opening balances and comparatives

We were appointed as auditors during the half year ended 31 December 2004. The financial report for the year ended 30 June 2004 was not audited by KPMG.

The financial report for the year ended 30 June 2004 contained a fundamental error as identified in note 4.

In addition we have been unable to obtain sufficient appropriate audit evidence to determine whether the remaining 30 June 2004 balances, which are the opening balances for the six months ended 31 December 2004, are fairly stated.

Accordingly, we are not in a position to, and do not, express an opinion on the comparative information for 31 December 2003 and 30 June 2004 included in the financial report. In addition, as the opening balances enter into the determination of the results of operations for the current year, we are unable to determine whether any additional adjustments to the results of operations or opening accumulated balances may be necessary for the six months ended 31 December 2004.

Qualified statement

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

(a) the Corporations Act 2001, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
- ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

Paul Steer
Partner

Place: Gold Coast

Date: March 2005