



# E.F.F. Limited

AND THE CONSOLIDATED GROUP

ACN 077 014 594

ANNUAL FINANCIAL REPORT

1 JULY 2006 - 30 JUNE 2007



## Corporate information

### Registered Office

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### Directors

Sydney Chesson (Chairman)  
Victor Turco (Director)  
Geoffrey Coad (Director)

### Company Secretary

Simon Chesson

### Members of the Consolidated Group

EFF Limited  
ACN 077 014 594

Environmental Forest Farms Management Limited  
ACN 087 201 670

EFF Timber Limited  
ACN 082 882 960

Powton Land Holdings Limited  
ACN 087 201 652

A&N Enterprises Pty Ltd  
ACN 113 434 512

Forestry Finance Limited  
ACN 108 513 239

Beenyup Forest Farms Pty Ltd  
ACN 081 216 766

### Auditor

Carlton and Partners  
Level 1, 9-11 Drake Street  
Osborne Park WA 6017

## Shareholder information

### Shareholder Enquiries

Shareholders with queries about their shareholding should contact the Company.

### Change of Address

Should a Shareholder's registered address change, they should notify the Company in writing immediately.

### Electing Not to Receive an Annual Report

Shareholders who do not wish to receive future Annual Reports, or currently receive more than one copy of the Annual Report should notify the Company in writing.

Shareholders who wish to receive an electronic version of the Annual Report should also notify the Company in writing.



# Contents

The EFF Group .....	4
Paulownia Timber .....	5
Kiri Park .....	6
Review of Operations .....	7
The Directors' Report .....	9
Auditor's Independence Declaration .....	12
Profit and Loss Statement .....	13
Balance Sheet Statement .....	14
Statement of Changes in Equity .....	15
Cashflow Statement .....	16
Notes to Financial Statements .....	17
Directors' Declaration .....	39
Auditor's Report .....	40

## The EFF Group

The parent company of the EFF Group is E.F.F. Limited (“Environmental Forest Farms” or “EFF”). The EFF Group is one of Australia’s leading Paulownia organisations. As the parent company, EFF’s primary role is to oversee the operations of its subsidiary companies, along with an active role in the marketing, administration and investment activities of the Group.

The EFF Group has the key building blocks to continue its success and excellence in the Paulownia industry. Some of these factors include:

- Through Powton Land Holdings (“PLH”), the EFF Group has a proven capacity to source quality land, suitable for commercial Paulownia plantations.
- Through Environmental Forest Farms Management Limited, the EFF Group has the management expertise to establish and manage Paulownia plantations according to industry best practice.
- Through Environmental Forest Farms Management Limited (“EFFM”), the EFF Group has an Australian Financial Services License enabling the Group to establish and manage Paulownia projects as Managed Investment Schemes registered with the Australian Securities and Investments Commission.
- Through EFF Timber Pty Ltd t/a Highpoint Timbers, the EFF Group has proven capacity and expertise in the processing, marketing and sale of Paulownia timber.

- Through Forestry Finance Limited, the EFF Group has the ability to provide finance to investors and businesses in the forestry industry.
- Through A&N Enterprises Pty Ltd, the EFF Group has access to 12 Hurrell Way in Rockingham, currently used by EFF Timber Pty Ltd for the processing, marketing and sale of EFF Limited’s timber.
- Through Beenyup Forest Farms, the EFF Group manages a Paulownia plantation for the Water Corporation (a Western Australian State Government Agency).
- The EFF Group has the financial capacity to allow the adoption of best silvicultural practices.
- EFF is member of the Forest Industries Federation (WA) Inc and implements best practice management in the field of Paulownia plantations.
- The EFF Group has demonstrated its capacity to continuously commit to the research and development of Paulownia trees and the different growing techniques for plantations in Western Australia. The Group’s nursery and research plantation are continually providing quality planting stock for future Paulownia plantations.

The EFF Group has maintained its commercial objectives and continues to develop the skills, knowledge and management expertise to ascertain these objectives.



# Paulownia Timber

## An Introduction to Paulownia Timber

Paulownia timber is a native Chinese timber and is grown successfully on a global scale in a diverse range of climatic conditions.

Paulownia are deciduous trees noted for their fast growth, deep rooting system, ability to utilise high levels of nutrients, the ability to produce quality timber for high end uses and suitability for plantation cultivation.

Paulownia is a fast growing hardwood that has an attractive straight grain and can dry easily without warping. The timber weathers to a light honey colour and can be polished to a satin finish. It is relatively easy to mill, process and use, thereby increasing the range of marketable uses for the timber.

Some of the unique qualities of Paulownia timber that make it an ideal timber for commercial plantation include:

- Paulownia can produce milling timber after only ten growing seasons;
- Whilst being a hardwood timber, it is light, making it practical for a variety of uses;
- The timber is typically used for value-adding products, rather than being used for wood chipping or paper production;
- Paulownia is a versatile, dimensionally stable and durable timber that is easily worked and can be readily stained, polished, glued and painted;
- Paulownia timber is sound absorbent and has good acoustic and insulation properties;
- The timber can be dried without warping;
- Paulownia clonal technology represents a commercially and environmentally efficient alternative for supplying some of the world's timber requirements.



## End Uses of Paulownia Timber

Paulownia timber is traditionally used for furniture making, fine cabinetwork, mouldings and panelling and has recently been used for blind slats, plywoods and veneer finishes.

Paulownia also has sound absorbent qualities and insulation properties, which may assist in increasing the variety of uses for the timber.

## Markets for Paulownia Timber

The market for Paulownia timber is truly global. The major markets for the timber exist in the North-East Asia Region, predominantly Japan, Korea, Taiwan and China where the timber is used for manufacturing furniture and for items of cultural and religious significance. Attempts are being undertaken to grow Paulownia commercially in the United States of America and in Israel.

Whilst the market for Paulownia is currently being established in Australia, the market is expanding and Paulownia is currently being imported into Australia to fulfil the expanding local demand. The characteristics of Paulownia timber, along with its ability to act as a substitute for natural forest timbers, is a key advantage to its marketability.

The potential for commercial Paulownia timber plantations in Australia is significant. Almost 80% of the new plantations established in Australia between 1995 to 2000, were short rotation eucalyptus plantations (primarily blue gums). However, at present, plantings of high quality timber, suitable for higher end uses such as furniture, does not appear to be a priority in the Australian timber industry (Unisearch, 2002). In Australia, timber that is used for higher end products, is typically removed from natural old growth forests.



# Kiri Park

## Introduction

"Kiri Park" is located at Lot M1254 Hunter Road, Regan's Ford, in Western Australia, and consists of approximately 536 hectares of land on the north bank of the Moore River and is located off the Brand Highway. Over 350 hectares of the Property is suitable for Paulownia plantations with approximately 200,000 Paulownia trees already being planted and are maintained on the Property. The plantation is considered to be one of the leading Paulownia plantations in Australia.

## Location

Kiri Park meets all the criteria necessary to establish, maintain and operate successful Paulownia plantations. The key factors for growing Paulownia timber include constant sunshine, ample water, sandy but well drained soils, nutrients and protection from severe winds.

- Some of the specific characteristics of the Kiri Park property, which make it suitable for Paulownia plantations, include:
- Long, clear summers - which provide an extended growing season;
- Ample supply of underground water (subject to the water licence held by the consolidated Group);
- Soils which allow the trees to establish and develop their deep root system;
- The soil is a mix of sand and clay which provides a good ability to hold water and nutrients;

- Access to the Property is from the Brand Highway - which is a major arterial road, providing suitable transport links to Perth and other locations in Western Australia. Perth has suitable ports and transport facilities to assist with global exporting in the future.

## The Kiri Park Projects

The Kiri Park Projects have been established specifically for the growth, development, harvest, promotion and sale of Paulownia timber. There are currently three projects which are all operated as a Managed Investment Scheme at Kiri Park, with each project operating for a 10 year period.

The Kiri Park Projects combine to total approximately 1,700 Woodlots, which have been planted and are managed for over 650 Growers. The projects combine for a total of 200,000 Paulownia trees, all of which are managed by Environmental Forest Farms Management Limited ("EFFM"). Planting of new Woodlots sold under the latest Kiri Park Project will be undertaken during the 2007 planting season.

A total of approximately 80% of the plantable land is under plantation, which includes the Kiri Timber Trust and the plantations for individual Growers under the Kiri Park Projects. Future Kiri Park Projects are being designed to facilitate additional planting to reach the maximum plantation capacity of the Property.



# Review of Operations

## Company Highlights

- The Company and Consolidated Group increased profitability.
- Continued development of Highpoint Timbers in Rockingham, a specialist Paulownia timber processor and seller.
- The Company Increased Net Assets by 30%.
- Marketed the Kiri Park Projects: 2007 Growers resulting in approximately 20,000 seedlings to be planted in the 2007 planting season.
- Marketed the Kiri Timber Trust.
- Continued harvest of Nowergup Research Plantation and development of harvesting and milling techniques
- Strengthened the financial position and financial performance of the Company and the EFF Group.
- EFF assisted its subsidiary companies to become financially stronger and achieve numerous 'wins' throughout the year for the benefit of the EFF Group.
- Continued to undertake Research and Development in the areas of fertigation, water utilisation and species selection in conjunction with various universities in Western Australia.

## Financial Performance

During the financial year the Company maintained profitability, posting a profit of \$354,325 (2006: profit \$201,173). The Economic Entity had a profit of \$51,274 (2006: profit \$1,621,456).

The Company and the Group are both in carried forward profit situations where the carried profit for the Company and \$123,407 (2006: loss \$230,918) while the carried forward profit for the Economic Entity was \$946,312 (2006: profit \$1,206,290).

During the financial year the Company increased revenue from ordinary activities to \$1,228,895 (2006: \$737,501) while the Economic Entity had a decrease in revenue from ordinary activities to \$3,175,285 (2006: \$4,829,933). The decrease in revenues was largely a result of a smaller increase in the value of the Group's privately owned Paulownia tree assets.

## Financial Position

The net asset position of the Company improved during the year to \$5,771,010 (2006: \$4,416,689), while the Economic Entity's net asset position declined to

\$7,766,278 (2006: \$7,896,519). This decrease is largely due to an increase in unearned income and trade payables, along with the continual investment in plant and equipment. The Company continued to devote financial resources to improving the infrastructure at the Kiri Park Property, through several measures including the repairs to existing bores, installation of additional irrigation systems, the development of a nursery at the Kiri Park property, and continual maintenance to the fences around the property. The continual infrastructure improvements at the Kiri Park Property are required to allow the Group to provide the services that it is contracted to provide.

## Corporate Activities

EFFM varied its Australian Financial Services License to be able to operate the Kiri Timber Trust as a registered Managed Investment Scheme,

EFF Limited has entered into a contract to purchase Part Lot 3716 Brand Highway, Regans Ford. This property consists of 425 hectares of cleared land and adjoins Kiri Park. It is the Company's intention to continue new plantings on this property when the remaining land at Kiri Park has been fully planted out.

EFF Limited made an Offer to purchase Woodlots in the Heritage Paulownia Forests Project No. 1 under a Bidders Statement lodged at the ASIC on 19 June 2006. The Offer formally closed on 14 August 2006. At the date of this report EFF has acquired 257 Woodlots in the Project.

## The Kiri Park Projects

During the financial year, the Company and the consolidated EFF Group continued to implement key strategies at the Kiri Park Property that were designed to benefit all of the plantations on the property. The primary strategies implemented during the year include:

### • Fence Improvements

The fence line along Hunter Road was increased by 50cm in height and electrified to prevent feral cattle entering the plantation.

### • New Access Road

An access road was laid to provide heavy vehicle access to new planting areas.

### • New Pump Shed

A new pump shed was constructed near the dam to improve the irrigation capacity and efficiency.

# Review of Operations

## • Plantings

In the middle of November 2006 woodlots for KPP-06 investors were planted. This year has been a successful year for investment and as such a huge number of new trees have been added to the Kiri Park Plantation.

## • Pruning and Uplift of Plantation

All trees in the plantation have been assessed and pruned accordingly. By pruning the trees, farm managers can balance the tree crowns to improve growth and reduce stress on the trees. Kiri Park Farm Manager Laurie Jolly is an experienced tree surgeon who trains and supervises all farm staff who engage in pruning activities.

## • Nutrition

Kiri Park Farm Management conduct regular leaf and soil nutrition analyses to determine optimum fertigation regimes for the plantation. This growing season continued to show good nutrient results as in previous years.

## • Growth

The trees have continued to show good growth rates over this year. Over the growing season the diameters of over 1000 trees at Kiri Park are measured on a monthly basis and at the end of the growing season a volume analysis was conducted. Heights of the trees are also measured on a regular basis.

## • Sales and Allotment of Woodlots

During the financial year, the issue and allotment of Woodlots for the Kiri Park Project 2005/2006 and the Kiri Park Project: 2007 Growers occurred.

The Project was issued with several Product Rulings from the Australian Taxation Office (PR2006/89, PR2007/150 and PR2007/151) and was marketed in Australia.

The Project was accepted onto the 'Approved Product Lists' of several holders of an Australian Financial Services License and good sales were made through these relationships. In total, 40 Woodlots were issued and allotted to Kiri Park Project 2005/2006 Growers and 283 Woodlots were issued and allotted to new Growers in the Kiri Park Projects: 2007 Growers on or before 30 June 2007.

## • Planting of Woodlots

Woodlots that were sold, issued and allotted under the Kiri Park Project 2005/2006 on or before 30 September 2006 were prepared, established, planted and maintained in accordance with good silvicultural practices and the respective lease and management agreement. Preparation has commenced for the planting of the Kiri Park Projects: 2007 Growers Woodlots, which shall be planted in October 2007.

## Heritage Paulownia

During the financial year, EFFM and the consolidated EFF Group continued to implement key strategies at the Heritage Paulownia Forests Project No.1 that were designed to increase the productivity of the plantation. The primary strategies implemented during the year include:

## • Ongoing Review of Plantation

Since being appointed the Responsible Entity for the Project, EFFM has conducted a number of review and assessments of the Project in accordance with its management policies. It has identified a number of areas where the plantation needs to be improved. EFFM has worked toward improving the management practices at the plantation and has endeavoured to implement forestry best practice principles for management programs including:

- Weed Control Program
- Pest Control Program
- Irrigation Program
- Infrastructure, Equipment and General Maintenance Programs.

Defaulting Growers have hampered the ability of the Responsible Entity to manage the Plantation however the Responsible Entity has devoted much of its own resources into maintaining best practice.

## Research and Development

The Company continued its Research and Development program during the financial year in the areas of fertigation, water utilisation and species selection. The Company also continues to utilise the consolidated Group's significant research plantation.

# Director's Report

Your Directors present their Report on the Company and its controlled entities for the financial year ended 30 June 2007.

## Directors

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

- Mr Sydney J. Chesson
- Mr Victor V. Turco
- Mr Geoffrey J. Coad

## Principal Activities

The principal activities of the Company during the financial year were to oversee the operations of its subsidiary companies, along with an active role in the marketing, administration and investment activities of the consolidated Group.

The principal activities of the consolidated Group during the financial year were the management of Paulownia plantations and activities relating to Managed Investment Schemes involving Paulownia plantations.

There were no significant changes in the nature of these activities during the year.

## Operating Results

The Company retained profitability this year, recording a profit of \$354,325 (2006: profit \$201,173). The net profit for the Economic Entity amounted to \$51,274 (2006: profit \$1,621,456).

## Dividends

There are no dividends to be paid or announced. The Company has carried forward profit as at 30 June 2007 totalling \$123,407 (2006: loss \$230,918).

## Review of Operations

The Directors report on some of the major achievements and operations of the consolidated Group as follows:

### *The Kiri Park Projects*

The Company and the consolidated Group spent considerable funds on the Kiri Park Projects and at the Kiri Park Property. The consolidated Group continued to manage and operate the Kiri Park Projects in accordance with best practice silvicultural methodologies which allowed the plantations to achieve their best growth results since their establishment.

## Significant After Balance Date Events

Since the end of the financial year the following significant events have occurred for the Company and its subsidiaries:

- In conjunction with its subsidiary EFFM, the Company continued further harvesting of Paulownia timber from the Nowergup Plantation. Approximately 100 trees are planned for removal from the Nowergup plantation by the start of the next Growing Season in early October. Timber from the harvest is expected to be sold to EFF Timber Pty Ltd.
- EFFM has lodged an application for a Product Ruling for the next Kiri Park Project.
- 71 Woodlots have been issued and allotted under the Kiri Park Projects: 2007 Growers Product Ruling 2006/151.

## Future Developments

The likely developments in the operation of the Company and the expected results of those operations in future financial years are as follows:

- The Company expects to continue to support its subsidiary companies with the successful operation and management of the existing Kiri Park Plantations and the other plantation interests of the EFF Group.
- The Company expects to continue with its commitment to Research and Development in the Paulownia industry.
- The Company expects to utilise part of the timber being harvested and milled from the Company's Nowergup plantation for marketing and promotional purposes.
- The Company expects to continue to market the investment opportunities in future Kiri Park Projects.

## Environmental Issues

The Company currently meets all development and operational conditions associated with the Company's operations.

## Information on Directors

At the date of this Annual Report, the Board of Directors have not established any specialist committees to take on specific roles and duties of the Board. As such, there are no special responsibilities assigned to any one Director.

The following information is provided in relation to the Directors of the Company

**Sydney Chesson** M.B.A, C.RE.M, C.S.M, F.A.I.C.D  
*Chairman*

Mr Chesson has been awarded a Master of Business Administration degree from the University of Notre

# Director's Report

importing and exporting, production and manufacturing. He has over 25 years experience in real estate and over 35 years experience in business and commercial activities.

As a Fellow of the Australian Institute of Company Directors, Mr Chesson has considerable experience as a Director of listed and unlisted public companies, unlisted property trusts, and several private companies.

Mr Chesson is also the Chairman of Environmental Forest Farms Management Limited, Powton Land Holdings Limited and Forestry Finance Limited, EFF Timber Pty Ltd and A&N Enterprises Pty Ltd

## **Victor Turco** B.Bus, C.PA

*Non-Executive Director*

Mr Turco has been involved in the Public Accounting Arena for approximately 25 years. During this time, Mr Turco has gained considerable experience in Australian and Overseas accounting, taxation, financing, corporate and property issues.

Mr Turco has experience as a Director of numerous companies, including serving as a Director of the Board of a Terminating Building Society managing a \$100 million portfolio.

Mr Turco is a Director of Environmental Forest Farms Management Limited, Forestry Finance Limited, EFF Timber Pty Ltd, Powton Land Holdings Limited and A&N Enterprises Pty Ltd.

## **Geoffrey John Coad** M.Phil, L.L.B, G.A.I.C.D

*Non-Executive Director*

Mr Coad was admitted to the Supreme Court of Western Australia in 1973, and has practiced law in Western Australia since 1975. He practices law in areas of commercial law, conveyancing and civil litigation.

Mr Coad is a member of the Australian Institute of Company Directors, and an external member of several other compliance committees for Managed Investment Schemes.

Mr Coad is also a Director of Environmental Forest Farms Management Limited, Forestry Finance Limited, EFF Timber Pty Ltd, Powton Land Holdings Limited and A&N Enterprises Pty Ltd.

## **Directors' Meetings**

During the year, the following number of meetings of Directors were held and attended:

Director	Eligible to Attend	No. Attended
Sydney Chesson	10	10
Victor Turco	10	10
Geoffrey Coad	10	7

## **Directors' Emoluments**

Disclosure relating to Directors' and Executive Officers' emoluments has been included in Note 23 of this Annual Report.

## **Indemnifying Officers**

The Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or of a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

## **Interests of Directors**

At the date of this Report, Directors held the following interest in ordinary shares.

Director	Direct Shareholding	Indirect Shareholding	Total
Sydney Chesson	Nil	93,320	93,320
Victor Turco	Nil	4,000	4,000
Geoffrey Coad	Nil	12,055	12,055

## **Options**

The Company does not have any options on issue.

## **Redeemable Convertible Preference Shares**

As at 30 June 2007, the Company's wholly owned subsidiary Forestry Finance Limited has 1,100 Redeemable Convertible Preference Shares on issue. These Preference Shares can be converted into fully paid ordinary shares in EFF at various dates and prices as detailed in the Replacement Prospectus dated 7 February 2005.

## **Directors' Interests**

Directors' interests in contracts and related party transactions are detailed in Notes 24 and 25 of the Annual Report.

## **Rounding of Amounts**

The amounts in the Annual Report and the Directors' Report have been rounded to the nearest dollar.

# Director's Report

## Proceedings on Behalf of the Company

There were no proceedings for or on behalf of the company during or since the end of the year.

## Non-Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Company has not paid any fees to external auditors for any services other than the independent audit of the Company's financial statements.

## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 12 of this Annual Report.

## Directors' Authorisation

This Report is made in accordance with a resolution of the Board of Directors and is signed by authority for and on behalf of the Directors by:



Sydney J Chesson  
Chairman

Dated this 29th day of October 2007

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# CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS

ABN 28 251 922 867

9-11 DRAKE STREET OSBORNE PARK WA 6017

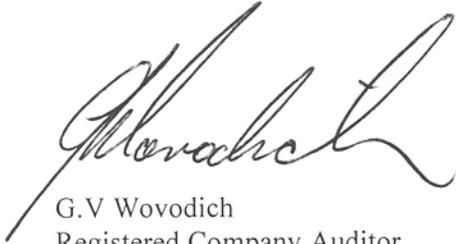
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## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF E.F.F. LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007  
there have been:

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

**Carlton & Partners**



G.V. Wovodich  
Registered Company Auditor

Dated this ..... 28 ..... day of SEPTEMBER ..... 2007 at Perth Western Australia

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# E.F.F. Limited and its Controlled Entities

ACN 077 014 594

## Income Statement

for the Period 1 July 2006 to 30 June 2007

	Notes	Economic Entity		The Company	
		30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<i>Revenue from ordinary activities</i>					
Revenue Income	2 (a)	3,175,285	4,829,733	1,228,895	737,501
<i>Expenses</i>					
Administration Expenses		(2,618,613)	(2,540,063)	(766,419)	(532,332)
Borrowing Costs	2 (b)	(258,154)	(161,070)	(5,843)	(3,997)
<b>Total Expenses Incurred</b>		<b>(2,876,767)</b>	<b>(2,701,333)</b>	<b>(772,262)</b>	<b>(536,329)</b>
Profit/(Loss) from Ordinary Activities before Income Tax		(298,518)	2,128,600	456,633	201,173
<b>Income Tax (Expense)/Benefit</b>	<b>3</b>	<b>(247,244)</b>	<b>(507,144)</b>	<b>(102,308)</b>	<b>-</b>
Net Profit/Loss		51,274	1,621,456	354,325	201,173
<b>Profit/(Loss) from Ordinary Activities after Income Tax Attributable to Members</b>		<b>51,274</b>	<b>1,621,456</b>	<b>354,325</b>	<b>201,173</b>

The above profit and loss statement is to be read in conjunction with the attached notes.

# E.F.F. Limited and its Controlled Entities

ACN 077 014 594

## Balance Sheet

as at 30 June 2007

	Notes	Economic Entity		The Company	
		30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>Current Assets</b>					
Cash and cash equivalents	4	337,573	500,306	2,497	(262,824)
Trade and other receivables	5	2,832,866	1,104,410	91,980	43,812
Inventories	6	491,913	50,000	264,458	-
Other financial assets	7	110,166	136,048	-	-
<b>Total Current Assets</b>		<b>3,772,517</b>	<b>1,790,764</b>	<b>358,936</b>	<b>(219,012)</b>
<b>Non-current Assets</b>					
Trades debtors and other receivables	5	673,282	1,330,457	-	-
Other financial assets	8	5,000,000	-	6,172,266	4,863,120
Property, plant and equipment	9	4,893,695	4,576,112	64,497	65,855
Biological assets	10	1,626,774	6,977,900	1,575,124	1,690,731
Intangible assets	11	13,729	945	-	-
Deferred tax assets	12	684,740	748,251	940	940
<b>Total Non-current Assets</b>		<b>12,892,353</b>	<b>13,633,665</b>	<b>7,812,827</b>	<b>6,620,646</b>
<b>Total Assets</b>		<b>16,664,870</b>	<b>15,424,429</b>	<b>8,171,763</b>	<b>6,401,634</b>
<b>Current Liabilities</b>					
Trade creditors and other payables	13	1,497,706	835,754	369,316	164,053
Other financial liabilities	14	-	-	1,608,233	1,653,672
Other financial liabilities	15	-	-	-	-
Other financial liabilities	16	2,269,583	1,588,274	-	-
Income tax	17	558,480	373,967	251,238	15,254
Provisions	18	-	-	-	-
<b>Total Current Liabilities</b>		<b>4,325,769</b>	<b>2,797,995</b>	<b>2,228,787</b>	<b>1,832,979</b>
<b>Non-current Liabilities</b>					
Other financial liabilities	15	2,580,032	2,737,123	171,966	151,966
Deferred tax liabilities	17	1,992,791	1,992,791	-	-
<b>Total Non-current Liabilities</b>		<b>4,572,823</b>	<b>4,729,915</b>	<b>171,966</b>	<b>151,966</b>
<b>Total Liabilities</b>		<b>8,898,592</b>	<b>7,527,910</b>	<b>2,400,753</b>	<b>1,984,945</b>
<b>Net Assets</b>		<b>7,766,278</b>	<b>7,896,519</b>	<b>5,771,010</b>	<b>4,416,689</b>
<b>Equity</b>					
Share Capital	19	5,647,603	5,649,075	5,647,603	4,647,605
Retained Profits/(Accumulated Losses)	20	946,312	1,206,290	123,407	(230,916)
Revaluation Reserve	21	1,172,363	1,041,154	-	-
Parent Entity Interest		7,766,278	7,896,519	5,771,010	4,416,689
<b>Total Equity</b>		<b>7,766,278</b>	<b>7,896,519</b>	<b>5,771,010</b>	<b>4,416,689</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# E.F.F. Limited and its Controlled Entities

ACN 077 014 594

## Statement of Changes in Equity

as at 30 June 2007

	Issued Capital				Total \$
	Fully Paid Ordinary \$	Retained Profits \$	Asset Revaluation \$	Outside Interest Equity \$	
<b>At 1 July 2005</b>	<b>4,448,103</b>	<b>(139,906)</b>	<b>1,227,019</b>	<b>956,741</b>	<b>6,491,957</b>
Shares issued during the year	1,979,472	-	-	-	1,979,472
Convertible notes	(789,500)	-	-	-	(789,500)
Redeemable preference shares	11,000	-	-	-	11,000
Profit attributable to members of parent equity	-	1,621,456	-	-	1,621,456
Acquisition of minority interest	-	(264,754)	-	-	(264,754)
Outside equity interest	-	-	-	(956,741)	(956,741)
Dividend declared	-	(40,506)	-	-	(40,506)
AIFRS Adjustment	-	30,000	(185,866)	-	(155,866)
<b>At 30 June 2006</b>	<b>5,649,075</b>	<b>1,206,290</b>	<b>1,041,154</b>	<b>-</b>	<b>7,896,519</b>
<b>Balance at 1 July 2006</b>	<b>5,649,075</b>	<b>1,206,290</b>	<b>1,041,154</b>	<b>-</b>	<b>7,896,519</b>
Shares issued during the year	-	-	-	-	-
Convertible notes	-	-	-	-	-
Redeemable preference shares	-	-	-	-	-
Profit attributable to members of parent equity	-	51,274	-	-	51,274
Acquisition of minority interest	(1,472)	-	-	-	(1,472)
Outside equity interest	-	(269,811)	-	-	(269,811)
Dividend declared	-	(41,441)	-	-	(41,441)
AIFRS Adjustment	-	-	131,210	-	131,210
<b>At 30 June 2007</b>	<b>5,647,603</b>	<b>946,312</b>	<b>1,172,363</b>	<b>-</b>	<b>7,766,278</b>

# E.F.F. Limited and its Controlled Entities

ACN 077 014 594

## Cash Flow Statement

for the Period 1 July 2006 to 30 June 2007

Notes	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>Cash flows from operating activities</b>				
Cash receipts from customers	2,814,545	3,154,320	1,296,394	631,057
Cash payments to suppliers and employees	(2,447,566)	(2,796,843)	(650,026)	(386,864)
Net Taxes (paid)/received	235,490	(61,905)	133,676	(16,031)
Interest received	194,486	235,626	107	1
Rent received	70,000	-	-	-
Interest and cost of finance paid	(258,154)	(161,070)	(5,843)	(3,997)
<b>Net cash flows used in operating activities</b>	<b>608,802</b>	<b>370,128</b>	<b>774,308</b>	<b>224,166</b>
<b>Cash flows from investing activities</b>				
Payment for property plant and equipment	(1,055,126)	(689,616)	(12,080)	(26,286)
Purchase of Investments	(1,309,146)	(420,959)	(1,309,146)	(350,004)
Others	-	(828,244)	(264,458)	-
<b>Net cash flows used in investing activities</b>	<b>(2,364,272)</b>	<b>(282,331)</b>	<b>(1,585,684)</b>	<b>(376,290)</b>
<b>Cash flows from financing activities</b>				
Loans to Growers	-	-	-	-
Proceeds from borrowings	(1,486,922)	439,982	20,000	(49,000)
Proceeds from issue of shares	2,299,998	590,780	999,998	989,000
Repayment of inter company loans	-	(1,067,948)	(45,439)	(1,067,948)
Dividend declared	(935)	(25,554)	-	-
Proceeds from repayment of interest bearing liabilities	(28,297)	(22,984)	-	-
<b>Net cash flows used in financing activities</b>	<b>783,844</b>	<b>(85,724)</b>	<b>974,559</b>	<b>(127,948)</b>
<b>Net increase/(decrease) in cash held</b>	<b>(971,626)</b>	<b>2,073</b>	<b>163,183</b>	<b>(280,072)</b>
Cash at the beginning of financial year	500,305	498,232	(262,824)	17,243
<b>Cash at the end of financial year</b>	<b>(471,321)</b>	<b>500,306</b>	<b>(99,641)</b>	<b>(262,824)</b>

# Notes to the financial statements

For the Period 1 July 2006 to 30 June 2007

## I. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Boards and the Corporations Act 2001.

The financial report covers the consolidated group of E.F.F. Limited and controlled entities, and E.F.F. Limited as an individual parent company. E.F.F. Limited is an unlisted public company, incorporated and domiciled in Australia.

The financial report of E.F.F. Limited and its controlled entities, and E.F.F. Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) and their entirety.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

### (a) Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### Accounting Policies

#### (b) Principles of Consolidation

A controlled entity is any entity E.F.F. Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 8 of the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealized profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed when necessary to ensure consistency with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date the control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

### (c) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized from the initial recognition of an asset or a liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognized by the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilized.

The amount of benefits brought to account or which may be realized in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realized and comply with the conditions of deductibility imposed by the law.

E.F.F. Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group is then subsequently assumed by the parent entity. The group is structured as a tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**(d) Inventories**

Inventories are measured at the lower cost of net realizable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

The cost of stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to forestry activities.

**(e) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Property**

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on a periodic, but at least triennial, valuations by external independent valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

**Plant and Equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset

previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement and depreciation based on the assets original cost is transferred from revaluation reserve to retained earnings.

**Depreciation**

The depreciable amount of all fixed assets including building and capitalized lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease of the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Building	2%
Leasehold Improvements	4 - 5%
Plant and Equipment	5 - 33%
Plant and Equipment Leased to External Parties	10 - 20%
Leased Plant and Equipment	15%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(f) Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortised on a straight line basis over the life of the lease term.

#### (g) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

#### (h) Financial Instruments

Financial instruments are measured initially at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

#### Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorized as held for trading unless they are designated as hedges. Realised and unrealized gains and losses arising from changes in fair value of these assets are included in the income statement in the period in which they arise.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### Held to maturity investments

These investments have fixed maturities, and it is the Company's intentions to hold these investments to maturity. Any held to maturity investments held by the Company are stated at amortised cost using the effective interest rate method.

#### Available for sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available for sale assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

#### Financial liabilities

Non-derivative financial liabilities are recognized at amortised cost, comprising debt less principal payments and amortisation.

#### Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

#### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

#### Impairment

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

At each reporting date, the group reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

#### (i) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates.

#### (j) Intangibles

##### Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its

net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### *Patents and trademark*

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging from 15 to 20 years.

#### *Research and development*

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

#### **(k) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

#### **(l) Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from investment properties is recognised on an accruals basis or straight-line basis in accordance with lease agreements.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

#### **(m) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

#### **(n) Financial Guarantees**

Financial guarantee contracts are measured at their fair values initially and subsequently measured at the higher of:

- the amount of obligation under the contract, as determined in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets; or
- the amount recognised initially less cumulative amortisation recognised in accordance with revenue recognition policies.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Changes in the accounting policy during the year for the group are described in detail in Note 31.

#### **(o) Payables**

The management agreement states that the manager is not to be remunerated until the fees are received by the Scheme. As a result, a corresponding payable is not recognised in note 6 to the financial statements.

#### **(p) Goods and Services Tax**

Revenues, expenses and assets are recognized net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognized as part of the cost of acquisition of the asset or as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **(q) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>2(a) Profit/(Loss) from Ordinary Activities</b>				
EFF Management Fee	1,321,046	1,290,207	265,000	136,500
Management Fees - Other	90,977	-	60,000	60,000
Marketing Costs	-	244,398	-	244,398
Marketing Costs Charged to EFFM	-	-	590,193	168,832
Retail Sales	2,700	-	30,000	-
Timber Sales	336,323	-	399,202	-
Woodlot Project Fees	1,174,873	918,621	-	-
Lease Income	-	125,992	-	-
Interest Income	194,466	81,160	107	1
Other Income	31,958	169,697	-	37
Net Increment/(writedown) in Value of Paulownia Trees	(63,957)	1,952,800	(115,607)	101,840
R&D Tax Concession Received	-	46,858	-	25,894
Diesel Fuel Rebate	86,900	-	-	-
Cost of Goods Sold	-	-	-	-
<b>Total Operating Revenue</b>	<b>3,175,285</b>	<b>4,829,733</b>	<b>1,228,895</b>	<b>737,501</b>
<b>(b) Borrowing Costs</b>				
Interest on Convertible Notes	88	3,997	88	3,997
Borrowing Costs	86,456	-	5,755	-
Interest in Other Persons	171,610	157,073	-	-
<b>Total Borrowing Costs</b>	<b>258,154</b>	<b>161,070</b>	<b>5,843</b>	<b>3,997</b>
Depreciation of non current assets				
Property plant and equipment	197,064	191,659	13,438	11,649
Amortisation of leased assets	172,067	38,686	-	-
Total depreciation and amortisation	369,131	230,345	13,438	11,649
Auditors remuneration	38,690	36,500	-	-
Auditors review of financial report	-	-	-	-
Related practice of the auditor for other services	-	-	-	-
Total auditors remuneration	38,690	36,500	-	-
<b>3 Income Tax Expense</b>				
The prima facie income tax payable on operating profit/(loss) is reconciled to the income tax provided as follows:				
Prima facie income tax payable on operating profit/(loss) at 30%	247,244	638,580	102,308	60,352
Add non allowable expenditure	-	3,000	-	-
Less: Non Taxable Income	-	(46,858)	-	(46,858)
Less: Income Tax Loss Not Recognised	-	(1,101,866)	-	(13,494)
Prior Year under/(over) provision	-	-	-	-
Timing Differences Not Recognised	-	-	-	-
<b>Income Tax Expense/(Benefit) Attributable to operating Profit</b>	<b>247,244</b>	<b>507,144</b>	<b>102,308</b>	<b>-</b>

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>4 Cash and Cash Equivalent</b>				
Cash and Cash equivalents	337,573	500,306	2,497	(263,224)
The above figures are reconciled to cash at the end of the financial year as shown in the cash flow Statement				
Cash on hand	420	400	400	400
Cash at bank	337,153	499,906	2,097	(263,224)
Cash and cash equivalents	337,573	500,306	2,497	(263,224)
Overdraft	(808,894)	-	(102,139)	-
Balance as per cashflow statement	(471,321)	500,306	(99,641)	(263,224)
<b>5 Trade Debtors and Other Receivables</b>				
<b>Current</b>				
Trade Debtors	134,240	16,681	-	-
Undeposited Funds	16,936	29,308	-	-
Growers Loans	2,113,932	534,502	4,480	-
Management Fees	-	20,164	-	-
Less: Provision for Doubtful Debts	(124,747)	(124,747)	-	-
Tax Refund Due	-	22,891	-	43,812
Growers Maintenance and Lease Fees	419,543	517,412	-	-
Less: Bank Suspense	-	-	-	-
Debenture Custodian	-	-	-	-
Prepaid Expenses	221,542	88,199	87,500	-
Prepayment and Refundable Deposit	51,419	-	-	-
<b>Total Current Trade Debtors and Other Receivables</b>	<b>2,832,866</b>	<b>1,104,410</b>	<b>91,980</b>	<b>43,812</b>
<b>Non Current</b>				
Growers Loans	673,282	1,330,457	-	-
<b>Total Non Current Trade Debtors and Other Receivables</b>	<b>673,282</b>	<b>1,330,457</b>	<b>-</b>	<b>-</b>
<b>6 Stock on Hand</b>				
Stock	491,913	50,000	264,458	-
<b>Total Stock on Hand</b>	<b>491,913</b>	<b>50,000</b>	<b>264,458</b>	<b>-</b>
<b>7 Other Financial Assets</b>				
Seedlings	94,160	117,700	-	-
ABN withholding payable	31,239	33,301	-	-
Dividend payables	(15,233)	(14,952)	-	-
<b>Total Other Financial Assets</b>	<b>110,166</b>	<b>136,048</b>	<b>-</b>	<b>-</b>
<b>8 Investments</b>				
<b>Non Current</b>				
Kiri Timber Investment Units	5,000,000	-	-	-
Shares in Controlled Entities at Cost	-	-	6,172,266	4,863,120
<b>Total Investments</b>	<b>5,000,000</b>	<b>-</b>	<b>6,172,266</b>	<b>4,863,120</b>

E.F.F. Limited and its Controlled Entities  
ACN 077 014 594  
Notes to Financial Statements  
as at 30 June 2007

	Principal Activities	Controlled Entity			
		Interest of Economic Entity		Book Value of Parent Entity Investment	
		2007 %	2006 %	2007 \$	2006 \$
Beenyup Forest Farms Pty Ltd	Plantation Owner	100%	100%	212,116	212,115
Environmental Forest Farms Management Limited	Plantation Manager	100%	100%	300,000	300,000
Powton Land Holdings Limited	Lessing Land, Financing	100%	100%	4,000,000	4,000,000
Forestry Finance Limited	Financing	100%	100%	1,651,000	351,000
EFF Timber Pty Ltd	Timber Processing	100%	100%	-	2
A&N Enterprises Pty Ltd	Property Owner	100%	100%	-	2
Heritage Paulownia Forests Project No. 1	Plantation Owner	100%	-	9,150	-
Kiri Timber Trust	Unit Holder	98%	-	5,000,000	-

All companies are incorporated in Australia.

The interest of the Economic Entity is solely in Fully Paid Ordinary Shares in each subsidiary.

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>9 Plant, Property and Equipment</b>				
Plant and equipment - at cost	428,289	381,331	79,909	79,909
Less: Accumulated depreciation	(268,356)	(221,664)	(74,425)	(72,594)
<b>Total</b>	<b>159,933</b>	<b>159,667</b>	<b>5,484</b>	<b>7,315</b>
Motor Vehicles - at cost	10,750	10,750	10,750	10,750
Less: Accumulated depreciation	(9,775)	(9,287)	(9,775)	(9,287)
<b>Total</b>	<b>975</b>	<b>1,463</b>	<b>975</b>	<b>1,463</b>
Office Equipment - at cost	67,864	51,516	58,098	50,987
Less: Accumulated depreciation	(49,181)	(45,178)	(48,270)	(44,782)
<b>Total</b>	<b>18,683</b>	<b>6,338</b>	<b>9,828</b>	<b>6,205</b>
Leasehold Improvements - at cost	194,475	109,866	44,608	44,608
Less: Accumulated depreciation	(119,727)	(84,109)	(28,031)	(25,554)
<b>Total</b>	<b>74,748</b>	<b>25,758</b>	<b>16,578</b>	<b>19,054</b>
Laboratory equipment - at cost	24,071	24,071	24,071	24,071
Less: Accumulated depreciation	(19,923)	(18,539)	(19,923)	(18,539)
<b>Total</b>	<b>4,147</b>	<b>5,532</b>	<b>4,147</b>	<b>5,532</b>
Land and Buildings - at cost	1,844,278	1,715,853	21,186	27,670
Disposal	-	-	-	-
Less: Accumulated depreciation	(40,464)	(29,150)	(2,698)	(1,384)
<b>Total</b>	<b>1,803,815</b>	<b>1,686,703</b>	<b>18,488</b>	<b>26,286</b>
Irrigation System - at cost	1,561,381	1,269,303	-	-
Less: Accumulated depreciation	(1,135,650)	(1,012,472)	-	-
<b>Total</b>	<b>425,731</b>	<b>256,831</b>	<b>-</b>	<b>-</b>
Land at Valuation	1,534,000	1,534,000	-	-
Leased Assets	1,064,124	940,206	-	-
Less: Accumulated Amortisation	(388,562)	(232,773)	-	-
<b>Total</b>	<b>675,562</b>	<b>707,433</b>	<b>-</b>	<b>-</b>
Dam - at cost	205,968	205,968	-	-
Less: Accumulated depreciation	(18,731)	(13,581)	-	-
<b>Total</b>	<b>187,237</b>	<b>192,387</b>	<b>-</b>	<b>-</b>
Milling Equipment at Cost	11,453	-	11,453	-
Less: Accumulated Depreciation	(2,455)	-	(2,455)	-
<b>Total Milling Equipment</b>	<b>8,998</b>	<b>-</b>	<b>8,998</b>	<b>-</b>
<b>Total Plant, Property and Equipment</b>	<b>4,893,828</b>	<b>4,576,112</b>	<b>64,497</b>	<b>65,855</b>

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>Movements in Property, Plant and Equipment</b>				
Plant and equipment - at cost				
Opening Balance	381,331	301,916	79,909	79,909
Additions	46,958	79,415	-	-
Disposals	-	-	-	-
<b>Closing Balance</b>	<b>428,289</b>	<b>381,331</b>	<b>79,909</b>	<b>79,909</b>
Accumulated Depreciation				
Opening Balance	221,664	205,276	72,594	70,154
Depreciation	46,692	16,388	1,831	2,440
Disposals	-	-	-	-
<b>Closing Balance</b>	<b>268,356</b>	<b>221,664</b>	<b>74,425</b>	<b>72,594</b>
Motor Vehicles at Cost				
Opening Balance	10,750	10,750	10,750	10,750
<b>Closing Balance</b>	<b>10,750</b>	<b>10,750</b>	<b>10,750</b>	<b>10,750</b>
Accumulated Depreciation				
Opening Balance	9,287	8,556	9,287	8,556
Depreciation	488	731	488	731
<b>Closing Balance</b>	<b>9,775</b>	<b>9,287</b>	<b>9,775</b>	<b>9,287</b>
Office Equipment at Cost				
Opening Balance	51,516	51,223	50,986	50,986
Additions	16,348	293	7,112	-
<b>Closing Balance</b>	<b>67,864</b>	<b>51,516</b>	<b>58,098</b>	<b>50,986</b>
Accumulated Depreciation				
Opening Balance	45,178	41,100	44,782	40,996
Depreciation	4,003	4,078	3,488	3,787
<b>Closing Balance</b>	<b>49,181</b>	<b>45,178</b>	<b>48,270</b>	<b>44,783</b>
Leasehold Improvements at Cost				
Opening Balance	109,866	101,938	44,608	44,608
Additions	84,609	7,928	-	-
<b>Closing Balance</b>	<b>194,475</b>	<b>109,866</b>	<b>44,608</b>	<b>44,608</b>
Accumulated Depreciation				
Opening Balance	84,109	50,357	25,554	22,706
Depreciation	35,618	33,752	2,477	2,848
<b>Closing Balance</b>	<b>119,727</b>	<b>84,109</b>	<b>28,031</b>	<b>25,554</b>
Land and Buildings at costs				
Opening Balance	1,715,853	1,051,003	27,670	-
Disposal	-	(409,532)	(6,484)	-
Revaluation	-	794,000	-	-
Additions	128,425	280,382	-	27,670
<b>Closing Balance</b>	<b>1,844,278</b>	<b>1,715,853</b>	<b>21,186</b>	<b>27,670</b>
Accumulated Depreciation				
Opening Balance	29,150	93,389	1,384	-
Depreciation	11,314	9,082	1,314	1,384
AIFRS Adjustment	-	-	-	-
<b>Closing Balance</b>	<b>40,464</b>	<b>102,469</b>	<b>2,698</b>	<b>1,384</b>

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>Movements in Plant, Property and Equipment</b>				
Laboratory Equipment				
Opening Balance	24,071	24,071	24,071	24,071
Additions	-	-	-	-
<b>Closing Balance</b>	<b>24,071</b>	<b>24,071</b>	<b>24,071</b>	<b>24,071</b>
Accumulated Depreciation				
Opening Balance	18,539	14,234	18,539	16,694
Depreciation	1,384	2,460	1,384	1,845
<b>Closing Balance</b>	<b>19,923</b>	<b>18,539</b>	<b>19,923</b>	<b>18,539</b>
Irrigation System at Cost				
Opening Balance	1,269,303	1,229,422	-	-
Additions	292,078	39,881	-	-
Disposals	-	-	-	-
<b>Closing Balance</b>	<b>1,561,381</b>	<b>1,269,303</b>	<b>-</b>	<b>-</b>
Accumulated Depreciation				
Opening Balance	1,012,472	861,750	-	-
Depreciation	123,178	150,722	-	-
Disposal	-	-	-	-
<b>Closing Balance</b>	<b>1,135,650</b>	<b>1,012,472</b>	<b>-</b>	<b>-</b>
Land at Valuation				
Opening Balance	1,534,000	1,534,000	-	-
Revaluation	-	-	-	-
<b>Closing Balance</b>	<b>1,534,000</b>	<b>1,534,000</b>	<b>-</b>	<b>-</b>
Leased Assets - Vehicles				
Opening Balance	940,206	295,272	63,005	63,005
Additions	123,918	644,934	-	-
Disposals	-	-	-	-
<b>Closing Balance</b>	<b>1,064,124</b>	<b>940,206</b>	<b>63,005</b>	<b>63,005</b>
Accumulated Depreciation				
Opening Balance	232,773	205,751	63,005	63,005
Depreciation	155,789	27,022	-	-
Disposal	-	-	-	-
<b>Closing Balance</b>	<b>388,562</b>	<b>232,773</b>	<b>63,005</b>	<b>63,005</b>
Dam at Cost				
Opening Balance	205,968	205,968	-	-
Depreciation	-	-	-	-
<b>Closing Balance</b>	<b>205,968</b>	<b>205,968</b>	<b>-</b>	<b>-</b>
Accumulated Depreciation				
Opening Balance	13,581	8,431	-	-
Depreciation	5,150	5,150	-	-
<b>Closing Balance</b>	<b>18,731</b>	<b>13,581</b>	<b>-</b>	<b>-</b>
Milling Equipment at Cost				
Opening Balance	-	-	-	-
Additions	11,453	-	11,453	-
<b>Closing Balance</b>	<b>11,453</b>	<b>-</b>	<b>11,453</b>	<b>-</b>
Accumulated Depreciation				
Opening Balance	-	-	-	-
Depreciation	2,455	-	2,455	-
<b>Closing Balance</b>	<b>2,455</b>	<b>-</b>	<b>2,455</b>	<b>-</b>

An independent valuation of the Powton Land Holdings property was carried out by Megaw Hogg on 18 August 2005. The valuation was conducted to provide the current market value for debenture security and prospectus purposes. The basis the Valuer used was the exchange of an asset between a willing buyer and seller in an arms length transaction. A valuation is to be carried out at least every 3 years.

Land and buildings are secured by a fixed charge primarily in favour of the Debenture Stock Holders and secondly by way of a fixed and floating charge in favour of the Trustee, Professional Funds Management Pty Ltd to the value of \$10,000,000.

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>10 Biological Assets</b>				
Paulownia Trees on leasehold Property	1,626,774	6,977,900	1,575,124	1,690,731
Milling Equipment Installation	-	-	-	-
<b>Total Biological Assets</b>	<b>1,626,774</b>	<b>6,977,900</b>	<b>1,575,124</b>	<b>1,690,731</b>

There were 50,900 trees from 3 - 7 years old which were valued in the current year in accordance with AASB 1037 using a discounted cash flow method, this was prepared by the Directors of EFF. This is represented as follows:

Landholder	Entity	No of Trees	Value (\$)
Powton Land Holdings	Powton Land Holdings	- (a)	-
Horwood	Nowergup	3,200 (b)	1,575,124
Water Corporation	Beenyup	3,000 (c)	51,650
<b>Total</b>		<b>6,200</b>	<b>1,626,774</b>

- (a) Powton Land Holdings owns the land on which the Kiri Park Plantations have been established. Powton Land Holdings have a plantation of 40,000 trees on the property.
- (b) The Paulownia trees of EFF are located on land owned by Angus Horwood, subject to a license agreement dated 15 September 1996 between the Company (licensee) and Angus Horwood (licensor). The license is for a period of 14 years commencing 15 September 1996. In consideration for the use of the land, EFF will pay Angus Horwood 10% of the gross proceeds of trees sold at the time of sale. A small harvest was conducted during the start of the financial year.
- (c) The Paulownia trees of Beenyup Forest Farms Pty Limited are located on land owned by the Water Corporation subject to a license agreement dated 18 May 1998 between the Company (licensee) and the Water Corporation (licensor). The license is for a period of 5 years commencing 1 October 1997, with 3 options each of 1 year. The Water Corporation may terminate the license during the term of any option for any reasons, on the giving of 6 months notice in writing without compensation to the Company. In consideration for the use of the land, Beenyup Forest Farms Pty Ltd will pay the Water Corporation 15% of the gross proceeds of trees sold at the time of sale.

The value of the Paulownia Trees and Propagation Technology is dependent upon the following:

- The consolidated entity continuing to be a going concern, that is dependent upon future equity and or debt capital raisings;
- The Paulownia Trees continuing to grow in accordance with the Directors expectations;
- The owners of the leasehold properties continuing to allow their land to be utilised by the group; and
- The Propagation Technology being economically viable and future demand and prices for Paulownia Trees is in accordance with directors' expectations.

#### 11 Intangibles

Trade Mark	945	945	-	-
Goodwill	7,500	-	-	-
Formation Expenses	5,284	-	-	-
<b>Total Intangibles</b>	<b>13,729</b>	<b>945</b>	<b>-</b>	<b>-</b>

	Economic Entity		The Company	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
	\$	\$	\$	\$
<b>12 Tax Assets</b>				
Future Income Tax Benefits	684,740	748,251	940	940
<b>Total Tax Assets</b>	<b>684,740</b>	<b>748,251</b>	<b>940</b>	<b>940</b>

The future income tax benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with;
- (c) no changes in tax legislation adversely affect the Company in realising the benefit.

### 13 Trade Creditors and Other Payables

#### Current

Overdraft	808,894	-	102,139	-
Heritage Payables	10,572	1,822	-	-
Trade Creditors	438,360	287,000	250,665	130,505
Sundry Creditors	(1,471)	(1,471)	-	-
Accruals	103,882	77,965	16,512	33,548
Debenture Interest Payable	31,978	31,978	-	-
Payroll Liabilities	105,491	-	-	-
Loan - AREIL	-	438,460	-	-
<b>Total Current Trade Creditors and Other Payables</b>	<b>1,497,706</b>	<b>835,754</b>	<b>369,316</b>	<b>164,053</b>

### 14 Intercompany Loan

#### Amount owing to subsidiaries

PLH	-	-	599,108	1,183,071
EFFM	-	-	1,848,700	785,181
BFF	-	-	10,676	10,676
FFL	-	-	(102,810)	25,994
A&N	-	-	(125,330)	(190,580)
EFF Timber	-	-	(622,110)	(160,670)
<b>Total Intercompany Loans</b>	<b>-</b>	<b>-</b>	<b>1,608,234</b>	<b>1,653,672</b>

### 15 Interest Bearing Liabilities

#### Current

Wholly owned controlled entity				
Beenyup Forest Farms	-	-	-	-
Short Term Borrowings	-	-	-	-
Debenture Stock Secured	-	-	-	-
Lease Liability	-	-	-	-
Others	-	-	-	-
<b>Total Current Interest Bearing Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 15 Interest Bearing Liabilities (continued)

#### Non Current

6% Debenture Stock - secured	1,243,200	1,243,200	-	-
9.5% Debenture Stock - secured	85,000	205,000	-	-
10% Debenture Stock - secured	337,000	425,000	-	-
Lease Liability	742,866	711,957	-	-
Bank Loans	-	-	-	-
Others	171,966	151,966	171,966	151,966
<b>Total Non Current Interest Bearing Liabilities</b>	<b>2,580,032</b>	<b>2,737,123</b>	<b>171,966</b>	<b>151,966</b>

The 12 year debenture stocks have been issued in terms of the Prospectus dated 7 December 1999. They are repayable on 30 June 2012 automatically extending for a further 12 years. Interest is payable on the stock at 6% p.a. plus further variable interest equal to 40% of pre-tax profit based on a ratio of debenture stock held to total debenture stock plus total amount paid by shareholders for shares.

The 3 year and 6 year debenture stocks have been issued in terms of the Prospectus dated 28 February 2001. They are repayable on 30 June 2007 (\$385,000) with the 3 year debenture stock having the right to extend for a further 3 years. Interest is payable on the stock at 8.45% and 10% p.a. respectively. A further Prospectus was issued on the 10 May 2002 offering the same terms but repayable on 30 June 2005 (\$25,000) and 30 June 2008 respectively.

The debenture stocks are secured by a fixed charge over the land as described in note 7 and a floating charge over all other assets of Powton Land Holdings Limited.

The purpose of the debenture stock is to:

- (a) Raise funds to lend to Growers who wish to enter into leases with Powton Land Holdings Limited for the purpose of planting Paulownia trees on land owned by Powton Land Holdings Limited; and
- (b) To enable Powton Land Holdings Limited to plant Paulownia trees on land owned by Powton Land Holdings Limited.

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>16 Unearned Income</b>				
Income Received in Advance	-	-	-	-
Management Fees	-	126,783	-	-
Unearned Income EFFM	2,191,072	1,051,409	-	-
Lease Fees	-	26,408	-	-
Unearned Rent Income	-	-	-	-
Woodlot Planting Fees	-	229,000	-	-
Interest	78,511	154,674	-	-
<b>Total Unearned Income</b>	<b>2,269,583</b>	<b>1,588,274</b>	<b>-</b>	<b>-</b>
<b>17 Tax Liabilities</b>				
<i>Current</i>				
Income Tax	170,285	-	88,860	-
GST Payable	388,194	373,967	162,378	15,254
<b>Total Current Tax Liabilities</b>	<b>555,480</b>	<b>373,967</b>	<b>251,238</b>	<b>15,254</b>
<i>Non Current</i>				
Provision for Deferred Income Tax	1,992,791	1,992,791	-	-
<b>Total Non Current Tax Liabilities</b>	<b>1,992,791</b>	<b>1,992,791</b>	<b>-</b>	<b>-</b>
<b>18 Provisions</b>				
<i>Current</i>				
Provision for Employee Entitlements	-	-	-	-
Provision for Share Subscriptions	-	-	-	-
Provision for Franking Deficits Tax	-	-	-	-
<b>Total Provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>19 Contributed Equity</b>				
<i>Paid Up Capital</i>				
<i>EFF</i>				
314,683 (2006: 314,683) shares	5,636,603	5,638,075	4,647,603	4,647,603
Converted Share Capital (Forestry Finance)	-	-	989,000	-
<i>Redeemable Convertible Preference Shares</i>				
1,100 (2006: 1,100) Preference Shares	11,000	11,000	11,000	11,000
<b>Total Paid Up Capital</b>	<b>5,647,603</b>	<b>5,649,075</b>	<b>5,647,603</b>	<b>4,647,603</b>
<i>Movements during the year</i>				
<b>(a) EFF</b>				
Ordinary Shares				
Balance at the beginning of the year				
314,683 (2006: 314,683) ordinary shares, fully paid	5,638,075	3,658,603	4,647,603	4,647,603
Shares issued				
- Nil (2006: 159,275)	-	1,979,472	-	-
- Transaction costs arising from issue for cash	(1,472)	-	-	-
<b>Balance at the end of the year</b>	<b>5,636,603</b>	<b>5,638,075</b>	<b>4,647,603</b>	<b>4,647,603</b>

There were no shares issued during the financial year.

Ordinary shares participate in dividends and the proceeds on winding up of the entity in proportion to the number of shares held.

Each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**(b) Redeemable Convertible Preference Shares**  
1,100 (2006: 1,100)

	11,000	11,000	11,000	-
<b>Balance at the end of the year</b>	<b>11,000</b>	<b>11,000</b>	<b>11,000</b>	<b>-</b>

**(c) Converted Share Capital (Forestry Finance)**  
1,100 (2006: 1,100)

	-	-	989,000	-
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>	<b>989,000</b>	<b>-</b>

Redeemable Convertible Preference Shares ("Preference Shares") were issued during the year by Forestry Finance Limited, a wholly owned subsidiary of E.F.F. Limited. Pursuant to the issue of the Preference Shares, each Preference Shareholder has the right to convert their Preference Shares into fully paid ordinary shares in E.F.F. Limited. The terms and conditions of the Preference Shares is detailed in a Prospectus issued by Forestry Finance Limited. Pursuant to the Prospectus, Preference Shares were able to be converted to fully paid shares in EFF Limited during the year. In total, 98,900 Preference Shares were converted to fully paid shares in EFF on the 31 March 2006.

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>20 Retained Profits/(Accumulated Losses)</b>				
Retained Profit at the beginning of the year	1,206,290	(139,906)	(230,918)	(432,091)
Prior Year Adjustment to Retained Earnings	(269,811)	-	-	-
Acquisition of minority interest	-	(264,754)	-	-
Dividend Declared	(41,441)	(40,506)	-	-
Transfer of Provision of Franking Deficits Tax	-	-	-	-
AIFRS Adjustments	-	30,000	-	-
Net Profit/(Loss) attributed to members	51,274	1,621,456	354,325	201,173
<b>Retained Profit/(Accumulated Loss)</b>	<b>946,312</b>	<b>1,206,290</b>	<b>123,407</b>	<b>(230,918)</b>
<b>21 Asset Revaluation Reserve</b>				
Opening	1,040,153	1,227,019	-	-
Asset Revaluation	132,210	-	-	-
Deferred Tax (AIFRS Adjustments)	-	(186,866)	-	-
Transfer to Minority Interest	-	-	-	-
<b>Total Asset Revaluation Reserve</b>	<b>1,172,363</b>	<b>1,040,153</b>	<b>-</b>	<b>-</b>

The Asset revaluation reserve represents the parent entity share of the revaluation of the land and buildings of Powton Land Holdings Limited.

#### 24 Interest in Controlled Entities

Outside equity interest comprises:

Share Capital	-	-	-	-
Retained Profit/(Loss)	-	-	-	-
Asset Revaluation Reserve	-	-	-	-

#### 23 Events Subsequent to Balance Date

Since the end of the financial year, the following events have occurred for the Company and its subsidiaries:

- In conjunction with its subsidiary EFFM, the Company continued further harvesting of Paulownia timber from the Nowergup Plantation. Approximately 100 trees are planned for removal from the Nowergup plantation by the start of the next Growing Season in early October. Timber from the harvest is expected to be sold to EFF Timber Pty Ltd.
- EFFM has lodged an application for a Product Ruling for the next Kiri Park Project.
- Woodlots have been issued and allotted under the Kiri Park Projects: 2007 Growers Product Ruling 2006/151.

Other than the above, since 30 June 2007, there have been no material events to report.

	Economic Entity	
	30 June 2007 \$	30 June 2006 \$
<b>24 Related Party Transactions</b>		
Transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.		
Transaction with related parties during the financial year are as follows:		
<b>(i) Ultimate Parent Entity</b>		
Amount payable to EFFM, a wholly owned subsidiary	1,848,700	720,799
Amount payable/receivable to PLH, a wholly owned subsidiary	599,108	257,491
EFF charges EFFM management fees	265,000	120,000
EFF charged PLH management fees	60,000	60,000
PLH charges EFF Lease fees under a lease agreement entered into on 23 June 2000	-	15,000
EFF charged EFFM tree seedlings management	-	420,000
EFF charged FFL administration fees	60,000	-
<b>(ii) Associated Company (PLH)</b>		
EFFM paid PLH lease fees	599,108	-
PLH paid EFFM management fee for a 5% reduction in the harvest fee in return for a reduction of 5% in the harvest fee.	300,000	1,216,000
<b>(iv) Associated Company (EFF Timber Pty Ltd)</b>		
Transactions with Director related entities:		
AREIL, a entity associated with Syd Chesson, provided a short term loan to EFF Timber Pty Ltd which is to be repaid during the year (payable)	622,110	-
(v) Associated Company (FFL)	102,810	-
(vi) Associated Company (A&N Enterprises)	125,330	-
<b>(iii) Director Related Entities</b>		
Office rental paid to Beeck Developments, a company related to Syd Chesson	-	11,000
Accounting services paid to AustAsia Accounting Services, a company related to Syd Chesson	4,000	3,135
Financial planning services paid to AustAsia Financial Planning, a company related to Syd Chesson	3,722	16,329
Administrative services paid to AustAsia Group, a company related to Syd Chesson	223,000	132,000
Settlement fees paid to Master Settlements, a company related to Syd Chesson	-	390

**(iv) Identification of Related Parties**  
*Ultimate Parent Entity*

The parent entity is ultimately controlled by EFF Limited, which is incorporated in Australia.

**(iv) Directors Interests**

Directors interests in shares have been disclosed in the Directors' Report.

The following Directors have lease and management agreements for woodlots in "Kiri Park" at the end of the financial year:

- Jade Glen Pty Ltd, a related entity of Syd Chesson, has a 10 year lease & management agreement for 1 woodlot in the Kiri Park Projects: 2004 Growers.
- Syd Chesson has a 10 year lease and management agreement for 5 woodlots in the Kiri Park Projects: 2006 Growers.
- The First Knight Pty Ltd, an entity related to Mr Syd Chesson has a 10 year lease and management agreement for 15 woodlots in the Kiri Park Projects: 2006 Growers and for 8 Woodlots in the Kiri Park Projects: 2007 Growers
- Callao Pty Ltd, an entity related to Mr Syd Chesson has a 10 year lease and management agreement for 5 woodlots in the Kiri Park Projects: 2006 Growers
- Jet Black Pty Ltd, an entity related to Mr Victor Turco has a 10 year lease and management agreement for 4 woodlots in the Kiri Park Projects: 2005 Growers
- Geoffrey Coad, has a 10 year lease & management agreement for 2 Woodlots in the Kiri Park Projects: 2004 Growers and a 10 year lease and management agreement for 14 Woodlots in the Kiri Park Projects: 2006 Growers.

**25 Director's and Executive's Remuneration**

(a) The names of parent entity directors who have held office at the date of this report or during the financial year are:

- Sydney Chesson
- Victor Turco
- Geoffrey Coad

(b) Directors' Remuneration

2007	Salary & Fees	Superannuation	Equity	Other	Total
	\$	\$	\$	\$	\$
Mr. S Chesson	50,000	-	-	-	50,000
Mr. V Turco	20,000	-	-	-	20,000
Mr. G Coad	20,000	-	-	-	20,000
<b>Total</b>	<b>90,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,000</b>

2006	Salary & Fees	Superannuation	Equity	Other	Total
	\$	\$	\$	\$	\$
Mr. S Chesson	50,000	-	-	-	50,000
Mr. V Turco	20,000	-	-	-	20,000
Mr. G Coad	20,000	-	-	-	20,000
<b>Total</b>	<b>90,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,000</b>

(c) Retirement and Superannuation Payments

No prescribed benefit given during the year on the Company or a related party to a director or prescribed superannuation fund in connection with the retirement from a prescribed office.

## 26 Financial Instruments

The financial instruments of the Company are those which are classified as assets & liabilities.

### *Credit Risk*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements. The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

### *Net Fair Values*

The net fair value of assets and liabilities approximates their carry value. No financial assets and financial liabilities are readily traded on organised markets in a standardised form other than listed investments

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to and forming part of the financial statements.

### *Interest Rate Risk*

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on those financial assets as follows:

26. Financial Instrument

	Weighted Average Interest Rate		Floating Interest Rate		Fixed Interest Rate		Non Interest Bearing		Total	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>										
Cash and Stock	2.00%	2.00%	337,573	550,306	-	-	-	-	337,573	550,306
Receivable	0.00%	0.00%	-	-	3,082,010	2,307,096	1,043,511	263,820	4,125,521	2,570,916
<b>Total Financial Assets</b>	-	-	<b>337,573</b>	<b>550,306</b>	<b>3,082,010</b>	<b>2,307,096</b>	<b>1,043,511</b>	<b>263,820</b>	<b>4,463,094</b>	<b>3,121,222</b>
<b>Financial Liabilities</b>										
Account Payable	0.00%	0.00%	-	-	125,491	-	3,580,645	2,949,961	3,706,135	2,949,961
Debentures	8.00%	6.00%	-	-	1,665,200	1,873,200	-	-	1,665,200	1,873,200
Bank Loans	7.30%	0.00%	-	-	808,894	-	-	-	808,894	-
Short Term Borrowings	9.00%	0.00%	-	-	-	-	-	-	-	-
Taxation	-	-	-	-	-	-	-	-	-	-
Lease Liabilities	8.50%	8.00%	-	-	742,866	711,957	-	-	742,866	711,957
<b>Total Financial Liabilities</b>	-	-	-	-	<b>3,342,451</b>	<b>2,585,157</b>	<b>3,580,645</b>	<b>2,949,961</b>	<b>6,923,096</b>	<b>5,535,118</b>
<b>Net Financial Assets</b>	-	-	<b>337,573</b>	<b>550,306</b>	<b>(260,441)</b>	<b>(278,061)</b>	<b>(2,537,133)</b>	<b>(2,686,141)</b>	<b>(2,460,002)</b>	<b>(2,413,897)</b>
<b>Reconciliation of Net Financial Assets to Net Assets</b>										
			30 June 2007	30 June 2006						
		\$	\$	\$						
Net Financial Assets as above		(2,460,002)	(2,413,897)							
Plus No Financial Assets										
Fixed Asset		4,906,612	4,576,112							
Paulownia Trees		1,626,774	6,977,900							
Investment		5,000,000	-							
Intangibles		945	945							
Tax Assets		684,740	748,251							
Tax Liabilities		(1,992,791)	(1,992,791)							
<b>Net Assets as per Balance Sheet</b>		<b>7,766,278</b>	<b>7,896,519</b>							

27. Segment Reporting

	Financing & Investment 30 June 2007 \$	30 June 2006 \$	Tree Plantation 30 June 2007 \$	30 June 2006 \$	Unallocated 30 June 2007 \$	30 June 2006 \$	Total 30 June 2007 \$	30 June 2006 \$
<b>Revenue</b>								
External Revenue	194,466	1,371,367	2,860,466	2,078,792	120,353	1,379,574	3,175,285	4,829,732
Total Sales Revenue	194,466	1,371,367	2,860,466	2,078,792	120,353	1,379,574	3,175,285	4,829,732
Total Segment Revenue	194,466	1,371,367	2,860,466	2,078,792	120,353	1,379,574	3,175,285	4,829,732
Total revenue from ordinary activities	194,466	1,371,367	2,860,466	2,078,792	120,353	1,379,574	3,175,285	4,829,732
<b>Result</b>								
Segment Result	(63,688)	1,143,229	2,273,259	1,713,173	(1,911,053)	(727,801)	298,517	2,128,601
Income tax expense / benefit							(247,244)	(507,144)
Post-Tax Profit	(63,688)	1,143,229	2,273,259	1,713,173	(1,911,053)	(727,801)	(51,275)	1,621,457
<b>Assets</b>								
Segment Assets	7,692,467	1,740,212	6,922,929	12,071,424	1,257,876	1,592,630	15,873,271	15,404,266
<b>Liabilities</b>								
Segment Liabilities	1,685,200	1,873,200	3,012,449	2,300,231	3,409,344	3,334,316	8,106,993	7,507,747
<b>Net Segment Assets</b>	6,007,267	(132,988)	3,910,479	9,771,193	(2,151,468)	(1,741,686)	7,766,278	7,896,519

	Economic Entity		The Company	
	30 June 2007 \$	30 June 2006 \$	30 June 2007 \$	30 June 2006 \$
<b>29 Reconciliation of Cash</b>				
Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:				
Cash at bank	337,573	500,306	2,497	(262,824)
Reconciliation of Net Cash provided by Operating Activities to Profit/(Loss) from Ordinary Activities after Income Tax				
Operating profit.(loss) from ordinary activities after income tax	51,274	1,621,456	354,325	201,173
Non Cash Flows om Operating Profit/(Loss)				
Depreciation	372,124	227,890	13,438	11,649
Amortisation	-	-	-	-
Loss on Sale of Assets	-	-	-	-
Increase in Value of Paulownia Trees	64,124	(1,952,800)	115,774	(101,840)
Management Fee Accruals	-	-	-	-
R&D Tax Concession	-	-	-	-
Project Structuring Costs	-	-	-	-
Provision for Doubtful Debts	-	-	-	-
<b>Changes in Assets and Liabilities</b>				
(Increase)/decrease in receivables	(2,192,106)	(175,820)	(48,168)	(4,604)
Increase/(decrease) in accounts payable	2,014,560	30,076	205,263	133,819
Increase/(decrease) in other liabilities	-	-	-	-
Increase/(decrease) in employee entitlements	-	-	-	-
Plantation Fees Received in Advance	-	-	-	-
Decrease/(Increase) in FITB	-	34,586	-	-
Increase/(decrease) in provision for income tax	298,825	546,698	133,676	(16,031)
Increase/(decrease) in PDIT	-	38,043	-	-
Movement in Intercompany balance	-	-	-	-
<b>Net Cash Provided by Operating Activities</b>	<b>608,802</b>	<b>370,128</b>	<b>774,308</b>	<b>224,166</b>
<b>30 Leasing Commitments</b>				
Lease payment due within 1 year	-	-	-	-
Greater than 1 year less than 5 years	742,866	711,957	-	-
Minimum lease payments	742,866	711,957	-	-
Less: future finance charges	-	-	-	-
<b>Total</b>	<b>742,866</b>	<b>711,957</b>	<b>-</b>	<b>-</b>
<b>Represented as</b>				
<i>Current</i>	-	-	-	-
<i>Non-current</i>	742,866	711,957	-	-
<b>Total</b>	<b>742,866</b>	<b>711,957</b>	<b>-</b>	<b>-</b>

### **31 Changes in Accounting Standards**

There have been no changes in accounting standards.

### **32 Contingent Liabilities**

There are no Contingent Liabilities.

### **33. Dividends**

No Dividends have been declared or paid.

### **34 Company Details**

The Company was incorporated in Australia on the 11th of September 1996 and is domiciled in Australia.

The registered office of the Company is:

E.F.F Limited  
Level 1 AustAsia House, 412-414 Newcastle Street  
West Perth WA 6005

The principal place of business is:

E.F.F Limited

## Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, are in accordance with the Corporations Act 2001, and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the company's financial position as at 30 June 2007, and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that;
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporation Act 2001;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
3. 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.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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



**Sydney J Chesson**  
Director

Perth, 29th October 2007

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# CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS

ABN 28 251 922 867

9-11 DRAKE STREET OSBORNE PARK WA 6017

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF E.F.F. LIMITED

### **Report on the financial report**

We have audited the accompanying financial report of E.F.F. Limited its and Controlled Entities, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of E.F.F. Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

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PO BOX 1860  
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# CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS

ABN 28 251 922 867

9-11 DRAKE STREET OSBORNE PARK WA 6017

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*Auditor's Opinion*

In our opinion:

- a) The financial report of E.F.F. Limited and its Controlled Entities is in accordance with the Corporations Act 2001, including:
  - i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- b) The financial report also complies with International Financial Standards as disclosed in Note 1.

**Carlton & Partners**



G.V Wovodich  
Registered Company Auditor

Dated this .....<sup>29</sup>..... day of *October*..... 2007 at Perth Western Australia

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