



PAULOWNIA FARM MANAGEMENT
AUSTRALIA LTD

PRODUCT DISCLOSURE STATEMENT

PAULOWNIA TREE
FARMING
PROJECT No.3

ISSUED BY PAULOWNIA FARM MANAGEMENT AUSTRALIA LTD

ACN: 085 628 388
ASRN: 115 342 713

Important Notices

**THIS DOCUMENT IS IMPORTANT
AND SHOULD BE READ IN ITS ENTIRETY
This is a Product Disclosure Statement (PDS) for
The Paulownia Tree Farming Project No.3**

This is an important document and applicants should read the entire Product Disclosure Statement for the purpose of making an informed assessment of the project, your financial requirements and the performance and prospects of the scheme and the rights and obligations attaching to the investment

This Product Disclosure Statement is dated 23 November 2005.

The Australian Securities and Investment Commission and its officers take no responsibility for the contents of this Product Disclosure Statement.

All application money will be held by the Custodian in a bank account in trust for the Applicants until the time of allotment.

The minimum subscription was reached under the Paulownia Tree Farming Project No.1 and there is therefore no minimum subscription requirement under this Product Disclosure Statement.

This Product Disclosure Statement is issued by Paulownia Farm Management Australia Ltd (ACN 085 628 388) ("the Responsible Entity") (PFMA) and, except for the preparation of those parts of the Product Disclosure Statement consisting of or based on reports from independent experts, the Responsible Entity is responsible for its contents.

Unless otherwise stated, items shown in this Product Disclosure Statement are not assets of the Responsible Entity.

Potential investors should be aware that Growers have no right to require their Interests in the Project be bought back by the Responsible Entity or any other person associated with the Project, or to have their Interests in the Project redeemed or repurchased.

This is not intended to be a short term venture and will be subject to the risks generally associated with commercial plantation forestry.

The distribution of this Product Disclosure Statement in jurisdictions outside Australia may be restricted by law, and persons who come into possession of this Product Disclosure Statement should seek advice on and observe any of those restrictions. Failure to comply with these restrictions may violate securities laws. Investors who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed. This Product Disclosure Statement does not constitute an offer, in any place in which, or to any person to whom, it would not be lawful to make such an offer. No person or corporation connected with the issue of this Product Disclosure Statement guarantees, underwrites or warrants the performance of the scheme, or any investment offered under this Product Disclosure Statement, and further no guarantee is given in relation to the return of capital, payment of income distributions, tax refunds, or any other returns to the investors in the scheme offered under this Product Disclosure Statement.

The investment offered in this Product Disclosure Statement should be considered speculative.

Information contained in this PDS may change from time to time. If the change will be materially adverse, then, in accordance with the Corporations Act 2001 (the Act), PFMA will issue a supplementary PDS. However, if the change will not be materially adverse to the offer, then PFMA will not issue a supplementary PDS. Updated information will be continually available from PFMA's website at

www.paulowniamanagement.com.au. and upon request PFMA will provide you with a paper copy of any updated information free of charge.

If after reading this Product Disclosure Statement you have any questions about, or wish to express an interest in the offer, you should contact the advisor who provided you with this Product Disclosure Statement. This PDS should not be regarded as providing you with investment advice. An application for an interest in the Project can only be made by completing the Application Form attached to this Product Disclosure Statement

Website - Electronic Product Disclosure Statement

A copy of this Product Disclosure Statement can be downloaded from the website of the Responsible Entity at www.paulowniamanagement.com.au. Any person accessing the electronic version of this Product Disclosure Statement for the purpose of making an investment in the Company must be an Australian resident and must only access the Product Disclosure Statement from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Product Disclosure Statement or it accompanies the complete and unaltered downloaded version of this Product Disclosure Statement. Any person may obtain a hard copy of this Product Disclosure Statement free of charge by contacting the Company.

Note: Photos used in this Product Disclosure Statement are not necessarily showing assets that are owned by the Company.

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CHAIRMAN'S ADDRESS

Dear Investor,

On behalf of the Board of Directors and following on from the successful implementation of the first two Paulownia Projects, I am pleased to present to you an opportunity to participate in this Paulownia Tree Farming Project No.3. Paulownia Farm Management Australia Ltd was established to facilitate the development of tree husbandry Projects, including the growth, harvesting, processing, promotion and sale of Paulownia timber.

Establishing a commercial Paulownia farm is for a term of 12 to 15 years and the project is subject to the normal risks associated with commercial plantation forestry. We are committed to minimising those risks and to producing timber profitably. A commercial Paulownia tree farm is a physical asset that you can enjoy being involved in and to be able to watch the trees growing over the years. Ideally we are seeking Growers who wish to invest in Paulownia plantations in order to develop for themselves a valuable timber investment that will provide rewarding returns in the future.


The Board of Directors have business, marketing and Paulownia project management experience and have a practical, commercial hands-on approach to business management. We are committed to the ongoing success of the Project and its growth over time.

Paulownia Farm Management Australia Ltd was formed to create opportunities for the production and sale of high quality Paulownia timber. Central to the Project will be the plantation husbandry, maintenance and development we consider important for the total realisation of the venture.

The Directors are committed to the establishment of a fully developed plantation project involving the growing, harvesting, promotion and sale of high quality Paulownia timber.

This Product Disclosure Statement contains detailed information to help you decide whether to apply for an Interest in this Paulownia Project No.3. Please read this Product Disclosure Statement carefully before making that decision.

On behalf of the Board, I look forward to your participation.



David Peter Blackwell

Chairman of Paulownia Farm Management Australia Ltd.
23rd November 2005

1.0 PROJECT SUMMARY

This section is a summary only. This Product Disclosure Statement should be read in full and preferably a professional advisor consulted before an investment decision is made.

1.1 Paulownia Trees

The most important attribute of Paulownia is its ability to produce stable quality timber in a short time frame. The timber is by definition a hardwood, light but strong. It dries easily without warping, has a straight grain, polishes to a satin finish and is easily worked.

Traditional uses include furniture making, fine cabinetwork, mouldings and paneling. More recent uses include blind slats, plywoods, veneers and caskets and for use in the caravan industry.

1.2 Demand for Wood

Increasing world population and improved living standards are expected to strengthen the per capita consumption and total demand for wood. Plantation forests are likely to become more important as Federal and State Governments implement the National Forest Policy Statement (1995). The policy supports the conservation and management of old growth native forests and places strong emphasis on the expansion of commercial plantations so as to meet the domestic needs for wood based products and produce for export.

1.3 Purpose of the Issue

The Product Disclosure Statement provides you with the opportunity to participate in the timber industry by acquiring an Interest in Project No.3 and becoming a Grower of Paulownia trees in the Dandaragan region of Western Australia.

1.4 Form of the Investment

An Applicant whose application is accepted by the Responsible Entity is known as a Grower. As a Grower you will:

- hold a Sub-Lease over a separate and individually identifiable area of the Plantation comprising one or more Timberlot(s) (each Timberlot is 0.10 hectares in size);
- enter into a Lease and Management Agreement with the Responsible Entity and rural Equities Ltd, the land owner, that specifies in detail the work which will be undertaken on your behalf, including establishment, maintenance, harvesting and sale of timber; and
- receive income when the Plantation is thinned at year eight and clearfelled at years 12, 13, 14 and 15 (unless delayed by the Responsible Entity for commercial reasons).

1.5 Investment Cost

The amounts, as set out below, are payable at the time of application for rent, planting and management fees for the Initial Period in relation to the Timberlot for which each applicant has applied. After the Initial Period a Grower must pay annual Management fees of \$678.00 (inclusive of GST) and Lease fees of \$22.00 (inclusive of GST) per Timberlot (increasing at

the higher of 4% per annum or inflation, CPI indexed, which ever is the higher) pursuant to the terms and conditions of the Lease and Management Agreement.

The amount payable for the Initial Period is \$4,000 and consists of the following:

	<u>Amount</u>	<u>Plus GST</u>	<u>Total</u>
Rent	\$ 20.00	\$ 2.00	\$ 22.00
Management Fee	\$3,616.36	\$361.64	\$3,978.00
Total	\$3,636.36	\$361.64	\$4,000.00

“Initial Period”- means the period from the 1 July 2006 to the 31st December 2006

1.6 Taxation

Acquiring an Interest in the Project may provide a tax advantaged method to participate in the Paulownia timber industry by becoming a Grower. Those tax benefits will only become available to the Growers if the Commissioner of Tax exercises his discretion under sections 35-55 of the Income Tax Assessment Act 1997 (ITAA).

An application for a Product Ruling has been lodged with the ATO by the Responsible Entity but has not as yet been granted as at the date of this Product Disclosure Statement.

1.7 Returns

The Paulownia Tree Farming Project No.3 is a 15 year project. It is not possible to determine with any certainty, the financial returns to Growers over the life of a 15 year forestry project. this is primarily because it is not possible to calculate with accurate certainty the effect that a large number of variables, many of which are beyond the control of the Responsible Entity, may have on the project returns. Further, trying to anticipate events that affect returns, may not occur as expected, whilst unanticipated events that affect returns may occur.

Under the Corporations Act 2001, the provision of Forecast Financial Returns must be objectively and independently verified. As this is a 15 year project , it is impractical to objectively confirm and verify some of the supporting information that is required to provide and illustrate projected financial returns.

Whilst it is not possible for the Responsible Entity to provide financial forecasts, the Responsible Entity does wish to provide sufficient information to assist you in making your own assessment of the merits of investing in the Project. Some of the Factors that may assist you in performing your own financial projections for this Project, are contained in sections 2, 3, 4, 5, 6, 8, 9 and 10 of this Product Disclosure Statement.

The Paulownia tree when given appropriate cultural treatment, grows faster than other species of trees, producing stable timber at eight years of age. It also offers Growers the opportunity to participate in the value adding activities of milling and producing sawntimber to meet the end user demands.

Paulownia is already recognised world wide as a valuable useable timber with many uses.

You should consult your professional advisor, prior to making an investment decision in relation to this Project.

1.8 Sales and Marketing

The Responsible Entity will act as the selling agent for the sale of the whole of the Paulownia round logs at year eight and roughsawn timber produce at years 12 to 15 from this Project for what the Directors and Independent Consultant (Expert) believe to be commercial prices.

1.9 The Responsible Entity

Paulownia Farm Management Australia Ltd (the “Responsible Entity”) will manage the Project and the Timberlot(s) on behalf of each Grower during the 15 year term of the Project, effective from the 30 June 2006, under the terms and conditions of the Constitution. The role of the Responsible Entity includes establishing and cultivating the Paulownia trees and harvesting, processing and marketing the timber. The Directors of the Responsible Entity have several years’ experience in the financial and practical management aspects of the Paulownia business. The Responsible Entity is remunerated by a fixed fee component, details of which are set out in the Lease and Management Agreement. Refer to Section 6.0 of this Product Disclosure Statement for details on Project management and to Section 5.13 for fees payable to the Responsible Entity.

1.10 Independent Consultant

The Responsible Entity has also engaged the services of Afforestation Pty Ltd (ACN 008 733 926) as an Independent Consultant (Expert) on Paulownia trees and Paulownia plantations pursuant to the Plantation Consultancy Agreement. Afforestation Pty Ltd will be actively involved in overseeing the preparation for, and the implementation of, the planting. They will also oversee the growing and maintenance of the Paulownia trees on the Project land and they will act as a consultant to the Board of Directors on all matters concerning the farm management aspects of the Project. Section 11 contains a summary of the Plantation Consultancy Agreement.

1.11 Risks

Applicants should note that there are relevant risks associated with primary production and commercial tree farming plantations. Refer to the list of risk factors set out in Section 7 of this Product Disclosure Statement.

1.12 Risk Reduction

The Responsible Entity has been given a firm undertaking by the planting and maintenance contractor, Goldzone Investments Pty Ltd, that should any seedlings die as a result of planting then they will be replaced for up to two-years from the date of purchase.

1.13 Project Structure

The figure below, illustrates the project structure.



2.0 DETAILS OF THE OFFER

This Product disclosure Statement offers the opportunity to participate in a long term, fully managed commercial Paulownia tree farming plantation and timber business by entering into a Lease and Management Agreement with Paulownia Farm Management Australia Ltd, the Responsible Entity and Rural Equities Ltd, the land owner.

2.1 Important Notice

This section is not intended to provide all of the information for investors intending to apply for Interests offered pursuant to this Product Disclosure Statement. This Product Disclosure Statement should be read in its entirety.

Neither the Company nor any other person guarantees the performance of the investments offered pursuant to this Product Disclosure Statement, or the performance of the Scheme, or the return on any investment

2.2 Investment Cost

An amount as set out in Section 1.5 is payable upon application for each Interest applied for. This amount will pay for the initial planting and management fees together with rent for the Initial Period in relation to one Timberlot. In addition there are rental and management fees payable throughout the term of the Project pursuant to the Lease and Management Agreement.

See Section 5.12 for a full explanation of the costs to the Grower over the 15 year period.

2.3 Minimum Application

Each Applicant must apply for a minimum of one Interest in the Project. Should you acquire an Interest in the project you will enter into a Lease and Management Agreement in relation to one or more Timberlot(s), depending on your particular financial circumstances.

2.4 Minimum Subscription

There is no minimum subscription to be raised under this Product Disclosure Statement as the minimum subscription of 100 Timberlots, required under Project No.1, has already been complied with.

2.5 Over Subscription

This Product Disclosure Statement offers up to 1,250 Interests in the Project comprising up to 1,250 Timberlots. However, the Responsible Entity reserves the right to accept over-subscriptions providing that the Lessor has suitable irrigated land available and subject to approval by Afforestation Pty Ltd, the forestry consultants to the Responsible Entity.

2.6 Applying to Become a Grower

Subscribing to participate in this Project may only be made by completing the Application Form attached to this Product Disclosure Statement and forwarding it to the Responsible Entity with your cheque for the application money.

The Application Form is accompanied by a power of attorney, which should be signed by the Applicant to enable the Responsible Entity to execute the Lease and Management Agreement on behalf of the Applicant.

The Responsible Entity will ensure that all applications received on or before the expiry of this Product Disclosure Statement are processed in this financial year ending on the 30 June 2006. The Responsible Entity reserves the right to close the issue early.

Applicants seeking to borrow funds to participate in the Project must make their own arrangements with financiers. Applicants who borrow to purchase an Interest should also seek their own advice regarding the deductibility of interest payments from participation in this Project.

Once your application is accepted you are known as a Grower and your rights and the Responsible Entity's obligations to you are governed by the terms of the Lease and Management Agreement and the Constitution. This agreement and the Constitution are summarised in Section 10.

2.7 Timberlot Allotment

Timberlot(s) will be allotted by the Responsible Entity pursuant to this offer after receiving a fully completed application form which is attached to this Product Disclosure Statement. The Directors will allot the Timberlot(s) applied for as soon as practicable after the subscription is received. The Directors may allot the Timberlot(s) applied for on the application form in full, or allot any lesser number, or decline to accept any application. Where the number of Timberlot(s) allotted is less than the number applied for, the surplus application money will be refunded to the Applicant within seven days of allotment. Where no issue is made in respect to any application, the whole of the application moneys will be returned in full not later than seven days after the closing of the subscription.

A Grower's Timberlot(s) will be individually identifiable on a Plantation Timberlot Plan. The Responsible Entity at its sole discretion will allocate the Timberlots to the Growers. The Responsible Entity will issue a certificate to each Grower within two months of receiving the application, showing the Timberlot(s) number and location of the Grower's Timberlot(s).

Growers may register their interests in their Timberlots with the Department of Land Administration pursuant to a "subject of claim" caveat.

2.8 Electing Grower

Growers (the electing grower) may elect prior to 30 June 2008, to take their own produce from their Timberlot(s) in lieu of having it harvested (in year eight) and having it harvested and milled (years 12 to 15 only) and sold on their behalf by the Responsible Entity. In the event that no election is made, the Responsible Entity will sell the timber on behalf of the Growers under the terms and conditions of any Purchase Agreements that the Responsible Entity may enter into.

2.9 What Do You Get For Your Investment?

- A Lease over one or more Timberlot(s) which forms part of the Plantation for a period of 15 years commencing from 30 June 2006. Each Timberlot will be planted with a minimum of 100 Paulownia seedlings.
- A Lease and Management Agreement that specifies in detail the rent, use of the leased area and the work that will be undertaken on your behalf by the Responsible Entity including establishment, maintenance, harvesting and sale of the Plantation timber.
- You will receive income when the Plantation is thinned in year eight and again when the Plantation is harvested in years 12 to 15. The income will be generated from the sale of timber. The Responsible Entity will seek Purchase Agreements for the sale of the timber for all of the Non Electing Growers.

2.10 Management & Maintenance Fees

The application moneys of \$4,000 (inclusive of GST) per Interest in the Project are distributed as follows:

- [\$22 (inclusive of GST)] to the Lessor for rent in relation to a Timberlot for the Initial Period, being the Initial rental fee period (1/7/2006 to 30/6/2007); and
- [\$3,978 (inclusive of GST)] to the Responsible Entity for management fees, being for the Initial management fee period (1/7/2006 to 31/12/2006).

Lease and Management Fees will fall due each subsequent year during the term of the Lease and Management Agreements, indexed at the higher of 4% per annum or the CPI index. For example, in the second year, management fees are due and payable on or before the 30 June 2007 of \$678.00 (inclusive of GST) and the lease fees will be \$22.00 (inclusive of GST).

A program of payments due pursuant to the Lease and Management Agreement is set out in Section 5.12.

2.11 Other Expenses

Certain expenses may be incurred and are payable as follows. Where any taxes, duties, government charges, transfer or registration fees, brokerage or other charges, or costs are payable in connection with any transaction or dealing with a Lease and Management Agreement, assignment, transmission application or other transaction or document on behalf (or for the benefit or at the request) of a Grower, they are payable by the Grower.

In addition, the Responsible Entity is entitled to recover from a Grower costs incurred as a result of a cheque or other order for payment not being met on presentation; costs incurred as a result of any breach of the Constitution or any Lease and Management Agreement entered into by the Grower, any amounts distributed to a Grower in excess of the Grower's entitlements; any amounts for which the Grower has agreed, in writing, to indemnify them; or any amounts paid under any law, for or on account of or in respect of the Grower.

2.12 MARKETING FEES

The Responsible Entity will use its endeavours to maximise the yields from the Plantation to obtain the best returns for the Growers.

Pursuant to the Lease and Management Agreement the Responsible Entity is entitled to be paid a Marketing Fee by each Grower equivalent to five percent (5%) of any Gross Sale Proceeds received from the sale of the Paulownia produce.

The 5% Marketing Fee payable from the Gross sale Proceeds is to cover the Responsible Entity for its work involved with managing the thinning program and the final clearfell program in the years 12 to 15. This fee is also intended as an incentive to the Responsible Entity to increase the return to Growers by maximising the quantity of quality timber received from the plantation, so as to achieve a higher yield per Timberlot, and there by receiving higher sales revenue for the timber.

The Responsible Entity will therefore use its best endeavours to sell the timber produce on behalf of the Growers at the best price possible.

2.13 Sound Methods and Technology

The Responsible Entity will utilise sound timber plantation methods and technology on the Plantation to achieve economic yields of quality Paulownia timber. All trees will be irrigated and subject to a fertilizer program to ensure successful establishment and future growth. Row width is sufficient to allow for the use of tractors, farm machinery and other mechanical processes to be utilised.

2.14 Taxation Product Ruling

The Responsible Entity has received from the Australian Taxation Office a Product Ruling PR1999/70 on behalf of the first Project.

The Responsible Entity has received from the Australian Taxation Office a Product Ruling PR2000/92 on behalf of Project No.2.

The Responsible Entity has lodged an application with the Australian Taxation Office for a Product Ruling in relation to Project No.3.

2.15 Transferring your Interests in the Project

There is no secondary market for your Interests in the Project. If you wish to sell your Interest(s), you must comply with the requirements of Division 3A of Part 7.12 of the Corporations Law.

Subject to those requirements, you may transfer your Interest(s) in the Project to another person. If you wish to do so, you must comply with the terms of the Lease and Management Agreement that deal with transfers.

2.16 Keeping you Informed

When applications are accepted, each Grower will receive a certificate for the Timberlot(s) acquired which will be issued within two months from the receipt of the application. Growers may also obtain a copy of the Paulownia Tree Farming Project Constitution on paying to the Responsible Entity a fee of \$66 (inclusive of GST) per copy.

The Responsible Entity will maintain a register of Growers, identifying the Timberlots held, and Growers can inspect the register at the Responsible Entity's office during normal business hours.

Each year, audited annual accounts will be prepared for the Responsible Entity and the Project. At the end of the relevant financial year, Growers will receive copies of the annual accounts for the Project.

On or before 30 September and 30 March in each financial year the Responsible Entity must provide the relevant Grower with a report containing a review of operations of the relevant Growers timber business during the relevant period. The report must include details of:-

- the services provided by the Responsible Entity;
- the health of the trees;
- the quality and quantity of forest produce;
- any unforeseen circumstances which may affect the relevant Grower's timber business; and
- inventory measurements for the forest produce.

2.17 Cessation of the Project

Each Grower's Lease will terminate after the final clearfell harvest of trees, which is expected in year 15. The Responsible Entity reserves the right to extend the clearfell of timber past year 15, for one year, should commercial considerations render the extension necessary.

2.18 The Effect of the Goods and Services Tax

The Government introduced its Goods and Services Tax legislation on 2 December 1998. The GST is a broad-based indirect tax. It is a tax, which will be charged on the supply of goods and services in Australia and on imported goods. The effect of the imposition of the GST on the Project has been used in providing calculations and estimates throughout this Product Disclosure Statement and is prepared to the best of our knowledge at the time of writing.

The Lease and Management Agreement provides that the goods and services tax payable in respect of the rent, the management fee or any other payment or service provided pursuant to the terms of the Lease and Management Agreement shall be paid by the relevant Grower.

The 10% GST applies to most supplies of goods and services consumed in Australia on or after 1 July 2000. Income from property leases, including land, will generally attract GST.

Persons, who carry on an enterprise or business that has, or is, expected to have an annual turnover of \$50,000 or more are required to register and remit GST on their taxable supplies. A registered person can claim a credit, known as an input tax credit, for any GST included in the price of their business inputs. The difference between the GST payable on a person's sales and the GST included in the purchase price of their business inputs is the amount that is owed to or from the Australian Taxation Office (ATO). If a person's input tax credits exceed the amount of GST payable, the ATO will refund the excess.

Registered persons will have to issue "tax invoices" and lodge returns (Business Activity Statements (BAS)) with the ATO. For businesses with an annual turnover of less than \$20 million per year, BAS's can be lodged either monthly or quarterly. A BAS must be lodged for each tax period, even if it is a nil report. GST registration is optional for a person who has an annual turnover of less than \$50,000. An unregistered person is not required to charge GST on supplies made, however, they are unable to claim input tax credits in respect of their business inputs.

Registration for GST purposes can be done electronically, either through the Business Entry Point at www.business.gov.au or your tax agent can lodge the application through the Electronic Lodgement System. Alternatively, a completed paper application can be sent to the ATO. Persons intending to register should do so as soon as possible to ensure that their applications are processed by the ATO allowing thereafter either a monthly or quarterly Business Activity Statement (BAS) to be lodged at the appropriate time.

• GST - Application to Growers

The ability for Growers to register for GST hinges on whether they are carrying on an enterprise. That is, they are undertaking an activity or a series of activities in the form of an adventure or concern in the nature of trade.

The process and timing of registration may give rise to issues in respect to claiming of input tax credits.

The costs of participation in the Project, as detailed in this Product Disclosure Statement, includes GST. Registered Growers should be able to recover the GST component of the costs by claiming an input tax credit. As a consequence, the net outlay for Registered Growers should reduce by the amount of that GST component.

Registered Growers have to account for GST in respect to timber sale proceeds, as sales of timber are not input taxed or GST free. Registered Growers should be able to claim input tax credits in respect of the GST charged in relation to services associated with harvesting and marketing the timber produce.

Unregistered Growers will not have an entitlement to claim input tax credits. Also, Unregistered Growers will not have to deal with GST compliance matters. It may be expected, however, that Unregistered Growers returns may not be as high as Registered Growers' returns due to the inability to claim input tax credits.

Registered Growers will not be able to claim input tax credits on financing and certain associated expenses as these supplies are input taxed, and therefore not subject to GST.

Also, an input tax credit will apply in respect of the Growers' subscription Moines paid prior to 1 July 2006, as the services relating to this payment will be performed after 1 July 2000 and therefore GST is required to be charged.

Growers should seek their own professional advice in relation to the impact of the GST.

3.0 OPPORTUNITIES FOR PAULOWNIA IN AUSTRALIA

3.1 Market Opportunities

The current production and markets for Paulownia is the eastern Asian region, predominately Japan, Korea, Taiwan and China, where it is extensively used in the manufacture of furniture and items of cultural and religious significance. Market opportunities for Paulownia in Australia are seen as substantial because it can substitute for natural forest timbers that are currently imported. Some Paulownia is currently being imported into Australia to supply this expanding local demand.

The major opportunity for Paulownia is in the supply of various Paulownia timber products to the Australian furniture, building, moulding and paneling industries. The Independent Paulownia Consultant's Report in Section 8 should be referred to for more detailed information on Paulownia.

3.2 Opportunity for Paulownia Tree Farming

Paulownia, are deciduous trees noted for their fast growth, deep rooting habit, ability to utilise high levels of nutrients, production of quality timber and suitability for plantation cultivation. Worldwide attention is currently focused on minimising the removal of timber from old growth forests. To achieve this, and still meet the demand for timber and associated products, it will be necessary to establish and cultivate plantations of appropriate trees. Paulownia enjoys the unique status of being a tree that grows rapidly and produces a stable timber, which can be milled and processed into a wide range of marketable products.

The Paulownia genus is indigenous to China and nearby regions of Asia, where it is widely cultivated for multiple purposes. It has been naturalised in parts of North America. Timber from regrowth forests is harvested and exported to Asia. In Australia, Paulownia has been used for shade and shelter, being introduced by the Chinese during the 19th century gold rushes.

Paulownia provides an opportunity to develop a commercially viable tree plantation and timber producing project as an integral part of land development and improvement.

Some important benefits from establishing Paulownia plantations are:

1. Contributing to the replacement of imported rain forest timbers. Currently these timbers are being used in the Australian building and furniture industry.
2. Developing domestic and export markets for premium timber products.
3. Appeasing the strong representations of environmental groups to reduce the rate of removal of natural rainforest timber.
4. Benefiting various land and environmental rehabilitation activities. For example, Paulownia can be grown using wastewater from human and animal treatment systems and also used to rehabilitate certain saline soils.

The technology developed over the past 10 years in Australia to grow selected cultivars, which, with appropriate attention to land preparation, nutrition, pruning, irrigation and drainage, should yield high quality timber.

The Australian timber industry is based on selected extraction from old growth forest and cultivated plantations of exotic species. However, there is now significant public and political intervention to reduce the availability of old growth forests for logging and to encourage the establishment of cultivated plantations. This is being endorsed under the National Afforestation Program.

Australia has approximately 40 million hectares of native and plantation forests with emphasis being placed on achieving a position of self-sufficiency in forest products (not yet achieved). Australia had a balance of trade deficit in forest products in 1997/98 in excess of \$1,200 million.

4.0 PAULOWNIA PROJECT DETAILS

4.1 Paulownia trees

The most important attribute of Paulownia is their ability to produce stable quality timber in a short time frame. The timber is by definition a hardwood, light yet strong. It dries easily without warping, has a straight grain, polishes to a satin finish and is easily worked.

Traditional uses include furniture making, fine cabinetwork, mouldings, paneling and light weight framing. More recent uses include blind slats, plywoods, veneers, faced composite board, packaging and wood wool for insulation.

Harvesting of high quality timber can take place from as early as six years after planting. The established market for Paulownia timber in Japan, yields prices ranging from US\$400 per cubic metre for lower grades to more than US\$5,000 per cubic metre for top quality slow growth logs. While the industry in Australia is in its infancy, it is too early to quote a set price per cubic metre for exports.

Paulownia can adapt to a wide range of temperatures. Paulownia, given adequate soil moisture, can cope well with a summer maximum of 42°C. Species vary in their cold resistance. The variety *Paulownia fortunei* being used for this project, for example, can survive temperatures of around minus 10°C. In general the optimum temperature for growth is around 30°C. The longer the optimum temperature is sustained the better the growth.

The climate, soil and cultivation requirements of Paulownia have been well documented. There are a number of species, which have adapted to various climates from temperate to tropical, over a latitude range of 22° to 40°. Selected areas in the Central West Region of Western Australia meet the climatic and soil requirements for the production of Paulownia.

Paulownia is not simple to grow. These trees have special needs above those of the current, commonly grown, plantation trees such as *Pinus radiata* (Pine trees) and *Eucalyptus globulus* (Tasmanian Blue Gum.) For successful production of Paulownia, special attention needs to be paid to the following environmental factors:-

4.1.1 Water

In their establishment phase, it is essential that Paulownia are well watered during the warmer months. This will develop an extensive root system enabling them to become self reliant as the root system penetrates to the water table.

To assist with the water requirements of the Paulownia trees under this Project the Head Lessor will install irrigation systems on the Project Land to supply appropriate quantities of irrigation water to the trees during the growing season.

4.1.2 Sunlight

Paulownias require full sun to achieve maximum growth. Experiments carried out at the Chinese Academy of Forestry have shown that Paulownia will not tolerate situations of 70% shade.

4.1.3 Wind

Paulownia, particularly young plants, require protection from severe winds which can break off or damage leaves and branches.

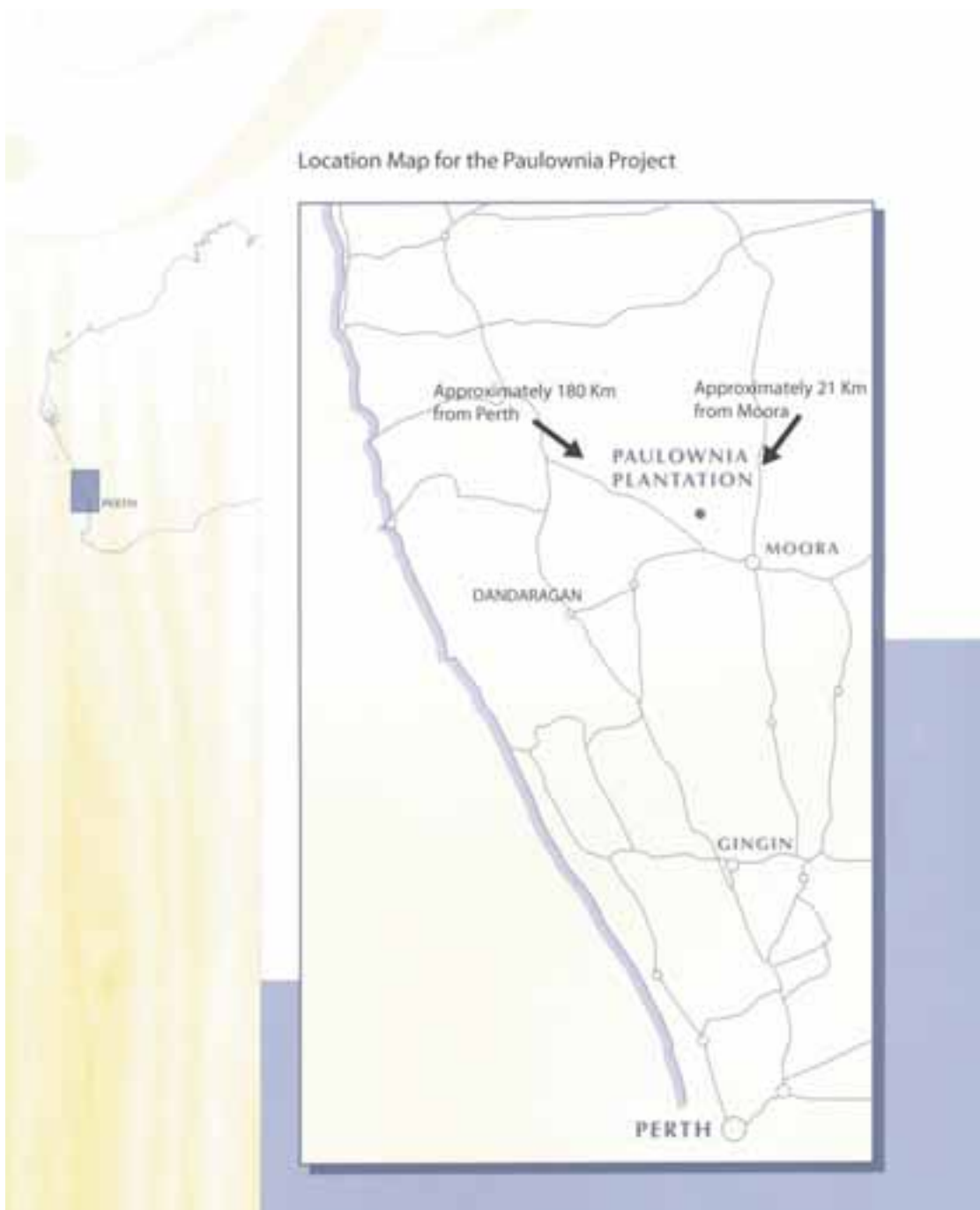
4.1.4 Soil

Soil can range from light clay to sands, preferably deep and well drained. Most species tolerate pH levels in the range of 4.5 to 8.5. However a generally acceptable range for *Paulownia fortunei* would be between 5.5 and 6.5. While Paulownia are quite salt tolerant, growth is seriously impaired if the total salt content of the soil is greater than 3,000 parts per million.

4.1.5 Pests & Diseases

Generally Paulownia is resistant to most known Australian pests and diseases. However cabbage white butterfly is attracted to its large succulent leaves. This is readily controlled by commonly used soft chemicals such as Dipel. In water logged conditions Paulownia succumbs to Phytophthora (Dieback) hence the selection of well drained land is imperative. The Responsible Entity is ever mindful of the possibility of pest and disease attacks and therefore will institute a comprehensive pest and disease monitoring program.

Location Map for the Paulownia Project



4.2 Project Land

4.2.1 Location

The Project will be established on the Project Land in the Dandaragan Shire in the Central West region of Western Australia, near the town of Moora and approximately 180 kilometres from Perth. The site chosen is located on land adjacent to Agaton Road, approximately 21 kilometres northwest of Moora.

4.2.2 Soil

The Plantation is to be established on land previously used for cropping activities and alongside an existing Paulownia Plantation. There are significant benefits to be obtained from utilising such land namely:

- Previous cropping activities on the land involved regular applications of fertiliser. Not all nutrients in the fertiliser are taken up by the shallow rooted crops. Over time they are washed into the sub-soil layers where deep rooting Paulownia can feed on the accumulated nutrients.
- Afforestation of extensively cropped farmland has a beneficial affect upon the environment by improving soil and water quality and helping to alleviate salinity by preventing the rise of the water table.

The land available comprises 125 hectares of gently undulating, well-drained, yellow sand plain soils with substantial volume of water extractable by bores from approximately 100 metres under the ground.

4.2.3 Irrigation

Under the Project Land is a major aquifer known as the Agaton Basin from which water will be pumped to irrigate the Plantation. Appropriate licences have been obtained by the Lessor to extract the water.

4.3 Climate

The Moora area experiences a temperate climate with temperatures and weather conditions influenced by its proximity to the coast. Rainfall averages 550 mm per year with temperature variations from 0°C to 45°C.

4.4 Continued Development

The Responsible Entity has engaged the Paulownia tree consultants, Afforestation Pty Ltd, to ensure that development on the Plantation is continued so as to improve the final yields and the production of quality timber. Refer to Section 8 for a summary of the Plantation Consultant's Agreement.

4.5 Structure

Pursuant to each Grower's Lease and Management Agreement the Plantation will be planted at 100 seedlings per Timberlot. The stock to produce the Paulownia trees is selected by the Responsible Entity and their consultant, Afforestation Pty Ltd. Planting stock will be propagated and cared for in nursery facilities approved by Afforestation Pty Ltd. Stock from the nursery will be planted out into the Plantation at a density and planting arrangement appropriate to achieve 100 trees per Timberlot.

4.6 Paulownia Timber Sales

The Project will, upon full subscription being reached, comprise approximately 125 hectares of Paulownia trees planted at 100 per Timberlot.

The whole of the Paulownia timber from the Plantation will be offered for sale by the Responsible Entity pursuant to the Growers Lease & management Agreement. This also includes the timber from any over subscriptions accepted by the Responsible Entity. Pursuant to the Lease and Management Agreement, there will be timber available for sales from the eight-year-old thinnings and from the final clearfell at years 12 to 15, being the sale of roughsawn timber.

5.0 PROJECTED YIELDS AND GROWER EXPENDITURE

5.1 Marketing

The local demand for Paulownia is growing and is currently being supplied by imported timber and a small amount of locally grown timber. Apart from its unique and valued characteristics for furniture making, Paulownia will compete with Western Red Cedar (an old growth forest timber) sold in the Australian market as a general moulding and joinery timber. The Responsible Entity considers that the domestic market will also become a principal market.

Through this Project and subsequent projects, the Responsible Entity intends to create a continual supply of timber from the year 2021.

5.2 Paulownia Timber Produce Sales

After eight years there will be a “thinning” harvest of up to 40% to 60% of the trees in each Timberlot depending on the independent Paulownia expert’s opinion on the percentage of trees that are suitable for harvesting.

The sale proceeds from the timber produce from year eight thinnings and years 12 to 15 clearfelling will be paid to the Custodian, and the Growers will be responsible for their proportionate share of the costs of harvesting, milling, drying, transport and other associated expenses. The Custodian will pay these costs direct to the Responsible Entity out of the sale proceeds. All costs of harvesting, milling, transport and other associated expenses will be payable by the Growers and audited.

Notwithstanding the above, Growers may elect, prior to 30 June 2008, to collect and market their own timber produce by notifying the Responsible Entity in writing.

In consideration for its role in the marketing, harvesting and handling the timber produce from all of the Growers’ Timberlots, the Responsible Entity is entitled to a fee being 5% of Gross Sale Proceeds received for the Timber.

The Responsible Entity will harvest the timber and arrange for the milling and sale of the roughsawn timber on behalf of each Grower under the terms and conditions of the Lease and Management Agreement.

5.3 Plantation Yields

Although Paulownia trees are widely grown overseas, especially in China, large scale Paulownia tree production is untested in Australia. The Responsible Entity considers that the Project Land is well located for the growth of Paulownia trees and the Directors have been advised by their consultants, Afforestation Pty Ltd, that yields obtained will be consistent with plantations in other areas. Unknown factors may however influence growth rates and yields.

The yields set out below have been calculated on a per tree basis for trees harvested at eight and at 12 to 15 years of age. The revenue for each Timberlot will be received from the sale of timber and will be on the basis that 100 trees per Timberlot will be harvested during the life of the Project, that is, 50 trees at year eight thinnings and 50 trees at clearfell, being the years 12 to 15. The Responsible Entity will endeavour to obtain a 100% harvest but Growers should be aware that primary production always has some risks and over a period of 15 years there could be a mortality rate of some trees which is not known at this stage.

To provide a basis for modelling the production and returns from the Project, the Directors propose the following felling plan:

The best return on investment per Timberlot should be achieved by carrying out an initial thinning process of 40% to 50% of the trees from May of year eight. The remaining trees should benefit from the thinning process. The average gross round log volume per tree is calculated to be 0.2 cubic metres at year eight.

The final Clearfelling process should commence in May of year 12 (after leaf fall and the completion of that season's growth) and continue until September (before the onset of new growth). This clearfell is aimed at the production of quality knot free logs. With the use of modern milling technology it is projected that a 12 to 15 year old log will yield 73% of its gross volume in rough sawn timber. The gross volume per tree is estimated to be 0.73 cubic metres after milling at years 12 to 15.

5.4 Production

The projected yields and production for each Timberlot is:

	No. of Trees	Volume per Tree (after milling loss)	Volume of Roughsawn Timber
Thinning (Year 8)	50	0.20 m3	10 m3
Clearfell (Year 12 to 15)	50	0.73 m3	36.5 m3

5.5 Processing

An appropriate processing plan will be developed by the Responsible Entity and will take account of new technology and facilities available in the region at the time of harvest. In any event there are suitable mills in Western Australia that are available for use at a cost which should not materially affect the projected costs and yields from those contained in the financial models used in the Project.

5.6 Pricing of Paulownia Timber Sales

Due to its appearance, properties and diverse application Paulownia timber commands a premium price compared to many other plantation timbers grown in Australia. This is because Paulownia timber provides an opportunity for higher end uses where premium prices may be achievable. Uses for Paulownia include furniture, cabinetwork, mouldings, paneling, blind slats, caravan fit outs (just to name a few), which are all high end timber uses, compared to woodchipping or for paper production. Furthermore, when given the appropriate silviculture treatment, the Paulownia tree has the ability to grow faster than other species, producing stable timber as early as eight years of age.

Prices for Paulownia vary according to the grade and age of the timber at harvest. Therefore the current wholesale price per cubic metre of Paulownia timber, would be in accordance with the grade of the timber. Prices for Paulownia are typically quoted in US\$ and as such, variances in the achievable sale price will occur due to variances in the US\$ to Australian dollar (AUD) exchange rates.

The Directors believe that a reasonable wholesale price for quality Paulownia timber sold in Australia would be in the range of approximately \$ 800 to \$1,200 (AUS). It should be noted that there has not been any significant sales of Paulownia timber from plantations in Western Australia upon which they have been able to draw on to provide any definite conclusion as the price and prospects of any sales of timber from this project.

5.7 Forecast distributions to Growers

The Paulownia Tree Farming Project No.3 is a 15 year project. Therefore it is not possible to determine with any certainty, the financial returns to Growers over the life of a 15 year forestry project. This is primarily because it is not possible to calculate with accurate certainty the effect that a large number of variables, many of which are beyond the control of the Responsible Entity, may have on the project returns. Further, trying to anticipate events that affect returns, may not occur as expected, whilst unanticipated events that affect returns may occur.

Under the Corporations Act 2001, the provision of Forecast Financial Returns must be objectively and independently verified. As this is a 15 year project, it is impractical to objectively confirm and verify some of the supporting information that is required to provide and illustrate projected financial returns.

Whilst it is not possible for the Responsible Entity to provide financial forecasts, the Responsible Entity does wish to provide sufficient information to assist you in making your own assessment of the merits of investing in the Project. Some of the Factors that may assist you in performing your own financial projections for this Project, are contained in section 2 and this section of the Product Disclosure Statement.

The Paulownia tree when given appropriate cultural treatment, grows faster than other species, producing stable timber at eight years of age. It also offers Growers the opportunity to participate in the value adding activities of milling and producing sawntimber to meet the end user demands. Paulownia is already recognised world wide as a valuable timber which has many uses.

The projected net proceeds payable to Growers are dependent on yields per tree. Please refer to Section 5.4 and 5.8 for further details.

The Responsible Entity is entitled to a marketing and handling fee of 5% (plus GST) of the Gross Sale Proceeds payable to the Growers.

You should consult your professional advisor, prior to making an investment decision in relation to this Project.

5.7 Expenditure

The Project will require considerable expenditure in the Initial Period. After that time there will be ongoing expenses such as Custodian fees, management, administration, Paulownia maintenance fees and Timberlot lease fees.

Details of Growers' annual expenditure are contained in Section 5.12 of this Product Disclosure Statement.

The overseeing of the harvesting and the processing of the timber resource is the responsibility of the Responsible Entity who will be reimbursed by the Growers out of the Gross Proceeds from the timber sales, for all of the costs associated with the harvesting and processing of the trees.

The Responsible Entity will also be entitled to a fee, being 5% (plus GST) of Gross Sale Proceeds of the thinning and clearfell harvest, in years eight (8) and years 12 to 15 respectively to cover the Responsible Entity's role arising from the extra work load in the Marketing, administration and management during this process.

The fees that will be deductible from the Gross Sale Proceeds by the Responsible Entity are as follows:

	Year 8	Years 12 to 15
Responsible Entity's Fee	5%	5%
Estimated Harvesting, Milling, and Transport costs per cubic metre (Inclusive of GST)	\$110	\$330

5.9 Insurance

Responsible Entity's Insurance

The Responsible Entity will take out public liability insurance over the Project Land (which includes the Growers' Timberlots) to a value of \$1,000,000.

Growers Insurance

You are not obliged to insure your Timberlot(s). However, the Responsible Entity will endeavor to arrange for a suitable general insurance policy to be made available to you should there be sufficient demand. Should more than 50% of the growers in this Project No.3 require insurance then the Responsible entity will endeavour to obtain such a policy. The policy if arranged will be for the year commencing on the 1st July 2008

The policy will be a standard forestry insurance policy available through a licensed insurer. As a minimum, the policy will cover property lost, destroyed or damaged by fire (except through spontaneous combustion). The policy should also provide cover against loss by lightning, hail and windstorms.

In order to insure against the loss of your Trees or Timberlot(s) from the risks covered by the policy, we recommend that you advise the Responsible Entity in writing to take out insurance (which is at your own expense) in respect of your Timberlot(s) each year. Subject to receiving requests from more than 50% of the Growers then an application will be made to an insurer for a policy that will cover the Growers trees.

Premiums should rise over the life of the Project as the value of the wood insured increases. The amount of insurance premium, if obtained, will be invoiced to the Growers by the Responsible Entity and paid annually with the lease and management fees. It is expected that Growers electing to insure their Timberlot(s) will be invoiced each June commencing June 2008. You may claim the insurance cost as an income tax deduction.

Growers are advised to obtain their own advice on whether they should take out insurance over their Timberlot(s). In doing so they may take the following points into consideration:

- The Responsible Entity has been able to put in place an arrangement with the Paulownia seedling supplier and the sub-contractor for the replacement of trees that die, as a result of planting, during the first two years from date of purchase. While the sub-contractor will replace trees that are lost for up to a period of two years from the date of purchase this only relates to mortality losses due to planting. Losses due to fire, hail etc. of any of the trees on the timberlot are not covered under this arrangement.
- While Paulownia are actively growing (in summer months when bushfire is highest), it is very difficult to burn, therefore the risk of damage or total loss by bushfire is minimal;
- Control measures undertaken in the initial years of the Project will greatly reduce a potentially combustible undergrowth of weeds;
- As the Paulownia trees grow they will reduce light infiltration to the ground, thus reducing undergrowth to a minimum; and
- Timberlot(s) are sectioned off in approximately 30 hectare blocks with firebreaks intersecting and around the boundaries.

Should Growers wish to take out their own insurance in respect of their Timberlot(s), then they must advise the Responsible Entity of their intention in writing.

Your notification to the Responsible Entity that you wish to insure, if available, can be made by indicating your preference when completing the appropriate section on your application form which is attached to this Product Disclosure Statement.

5.10 Indexation

All projected expenditures for the Growers have been calculated on an index adjusted basis and are inclusive of GST. For the purposes of determining the investment cost and the calculation of the Growers outgoings it has been assumed that all expenditure from the 2007/2008 financial year is subject to an indexation adjustment of 4% or CPI Index (whichever is greater) per annum. Projections have not been made for revenue amounts, as we have relied upon the estimated cubic metre of timber in the trees at harvest time to determine if the project is commercially viable. There are a number of expenses that are dependent upon revenues such as harvesting, processing and the Responsible Entity's fees of 5% of the Gross Sale Proceeds. Such expenses therefore do not have an adjustment for inflation but will be charged to Growers at actual cost for those services in the year expended. Nevertheless, the projected costs are based on expectations of a 4% inflation rate in all years.

5.11 Income Tax Benefits to Growers

The Responsible Entity has lodged an application with the Australian Taxation Office for a Product Ruling in relation to the Paulownia Tree Farming Project No.3. Investors are urged to seek independent tax advice before making any tax claims for any of their expenditure in this Project. If deductions are (for any reason) disallowed, Growers who receive amended assessments may also be required, by the ATO, to pay penalties and interest. The Responsible Entity does not guarantee the taxation consequences of your investment.

Should the Commissioner of Tax issue a product ruling in favour of Project No.3 then under Section 8-1 of the new Income Tax Assessment Act 1997 (Section 51(1) of the old Act) 100% of the total amount payable by each Grower under the Lease and Management Agreement (i.e. \$4,000 (inclusive of GST)) should be tax deductible.

Subject to the Commissioner of Tax exercising his discretion under the non-commercial losses provisions of the ITAA then in the first year (2005/2006) Growers may attract a 100% income tax deduction from their investment in the year that the expenditure is incurred. Subsequent years' payments by the Growers may also be 100% income tax deductible.

5.12 Timberlot Expenditure per 0.10 hectare Timberlot

5.12 TIMBERLOT EXPENDITURE PER 0.10 HECTARE TIMBERLOT

ESTIMATE OF COSTS OF INVESTMENT (GST INCLUSIVE)

YEAR	MANAGEMENT FEES A\$	LEASE FEES A\$	TOTAL FEES A\$	INPUT TAX CREDITS IF APPLICABLE A\$	TOTAL NET EXPENDITURE A\$
0	3978	22	4000	363.64	3636.36
1	678	22	700	63.64	636.36
2	705	23	728	66.18	661.82
3	733	24	757	68.83	688.17
4	763	25	787	71.58	715.42
5	793	26	819	74.45	744.55
6	825	27	852	77.42	774.58
7	858	28	886	80.52	805.48
8	892	29	921	83.74	837.26
9	928	30	958	87.09	870.91
10	965	31	996	90.57	905.43
11	1004	33	1036	94.20	941.80
12	1044	34	1078	97.97	980.03
13	1085	35	1121	101.88	1019.12
14	1129	37	1166	105.96	1060.04
15	1174	38	1212	110.20	1101.80
TOTAL	17554	463	18017	1637.86	16379.14

5.13 Project Parameters and Assumptions

Material assumptions used in the calculation of the Timberlot Expenditure Statement (Section 5.12) are as follows:

- Full subscription of 1,250 Timberlots
- 125 hectares planted by 31st December 2006
- Investment minimum subscription cost is \$4,000 (inclusive of GST) per Timberlot, being for the lease and management fee for the Initial Period.
- Land rental is \$22.00 (inclusive of GST) per Timberlot(s). For year two at \$22.00 (inclusive of GST) and thereafter indexed at 4% or CPI Index (whichever is greater) per annum for the life of the Project.
- An initial thinning of 40% to 60% takes place after eight years and the clearfell harvest takes place during years 12 to 15.
- First commercial timber is expected in the year 2013/14
- Yields of 0.20 cubic metres per tree in year eight and 0.73 cubic metres per tree in years 12 to 15.
- At year eight, a thinning yield per Timberlot of 10 cubic metres of timber.
- At years 12 to 15, a clearfell yield per Timberlot of 36.5 cubic metres of timber.
- Harvesting and processing costs are \$110 (inclusive of GST) per cubic meter at year eight thinnings and at years 12 to 15 clearfell \$330 (inclusive of GST) per cubic metre (these prices have not been adjusted for inflation).

- Management costs are indexed at the rate of 4% or CPI Index (whichever is greater) per annum from year two of the Project onwards.
- The Responsible Entity is entitled to a fee for marketing, additional administration, management and handling costs of 5% of the Gross Sale Proceeds.

The Responsible Entity cannot give an absolute guarantee that a Grower's liability is limited in each and every case that could arise. A Grower's liability is set out in the Lease and Management Agreement and the Constitution. Liabilities of Growers are limited under the terms of the Constitution. Investors should note that if a Grower is in breach of the Lease and Management Agreement and their agreement is terminated, the Responsible Entity is entitled to sell the Grower's trees and any shortfall in costs shall constitute a personal debt by the Grower to the Responsible Entity.

Many of the assumptions made are arbitrary. Should the timber yield of roughsawn Paulownia Timber or the rate of inflation vary from those predicted, then projected costs and the percentage of timber yields to investors could vary significantly.

Note: If the CPI inflation rate is greater than the 4% indexed then management fees and rent will rise at the greater rate. The above parameters and assumptions should be read in conjunction with any other relevant information set out in this Product Disclosure Statement. Neither the Responsible Entity or the Lessor guarantee any returns to the investors in this project.

6.0 PROJECT MANAGEMENT

6.1 The Responsible Entity

Paulownia Farm Management Australia Ltd (A.C.N. 085 628 388) (the "Responsible Entity") was incorporated on 17 December 1998 specifically to act as the Responsible Entity of the Paulownia Tree Farming Projects. The Responsible Entity will act for the Paulownia Tree Farming Project No.3 while also continuing to act for Paulownia Tree Farming Project No.1 and 2. The Responsible Entity has engaged the services of experienced experts and contractors who have been involved in the growing and supplying of Paulownia trees in Western Australia.

It has currently selected the land and resources which is owned by Rural Equities, that will enable it to offer investment opportunities in the plantation. The project will be aimed at the production of sawn logs of high quality hardwood timber for use in a wide range of quality domestic and international markets.

6.1.1 Dealers Licence

The Responsible Entity has been issued with a Dealers Licence, which authorises the company to:

- a) operate the managed investment scheme known as the Paulownia Tree Farming Project No.3, Dealers Licence Number 246892; and
- b) carry on as a Licencee in its own right as the Responsible Entity for the Projects.

6.1.2 Compliance Plan

The Responsible Entity has prepared a Compliance Plan as required by the Corporations Law to ensure that it meets its obligations as Responsible Entity and the rights of Growers are protected. The Compliance Plan sets out the compliance obligations of the Responsible Entity under the Corporations Law. The Compliance Plan also identifies any risks of non-compliance and establishes measures designed to address these risks. A summary of the Compliance Plan is contained in Section 10.

The Constitution governs the operations of the Responsible Entity setting out its duties and responsibilities in accordance with the Corporations Law.

6.1.3 Compliance Committee

The Responsible Entity has established a Compliance Committee as required by the Corporations Law. The responsibilities of the Committee are to monitor how the Responsible Entity complies with its Compliance Plan and to report any breaches to the Directors of the Responsible Entity and if necessary in certain cases to the ASIC.

The Committee comprises two external members and one representative of the Responsible Entity. The members of the Compliance Committee are;

Geoffrey John Coad L.L.B. (External Member)

Geoffrey Coad graduated from the University of Western Australia in 1971 with a Bachelor of Laws Degree. He was admitted to the Supreme Court of Western Australia as a Barrister and Solicitor in 1973. Since 1975, Geoffrey has practiced law in Western Australia in areas of commercial law, conveyancing, and civil litigation. Geoffrey is also a director of a listed public company.

Geoffrey's legal skills will be a valuable asset to the Compliance Committee.

John Lazberger (External Member)

John Lazberger is a Certified Practising Accountant. John has extensive experience in Corporations Law, business management and has a strong accounting background.

John's accounting and business skills will be a valuable asset to the Compliance Committee.

David Monteleone (Company's Representative)

David Montelone is the representative of the Responsible Entity on the Compliance Committee. David's details appear in Section 6.3.

6.2 Horticulturist and Consultant to the Responsible Entity

The Responsible Entity has engaged the services of Afforestation Pty Ltd (ACN 008 733 926), which under the direction of its principal tree-farming consultant, Mr Charles Peaty (Managing Director), will be the technical adviser to the Responsible Entity.

Over the past 30 years, Mr Peaty has operated in both private and public sectors managing commercial horticultural and plantation projects and education programs. For the past ten years, Mr Peaty has been researching Paulownia and its suitability and potential for tree plantations. He has developed agronomic principles and practices and quality assurance standards for propagation, tree establishment and crop husbandry for plantations in various Australian environments. He has conducted trials to test the optimum planting densities, nutrient requirements, pruning techniques and management systems. The costing work and research into the growth of Paulownia carried out by Afforestation Pty Ltd has been used to develop the economic model for this Project.

Mr Peaty has previously developed and delivered training programs in agriculture, horticulture and tree cropping and he will play a major role in training people to be employed or engaged by the Responsible Entity.

Mr Peaty holds a Bachelor of Science Degree (Forestry) from the University of Wales and through his Company, Afforestation Pty Ltd is qualified and skilled in horticulture, silviculture, tree cropping and timber production and he will play a major role in this Project with regard to overseeing the propagation, establishment and production of quality tree stock on the Plantation. Refer to Section 10 of this Product Disclosure Statement for the summary of the Plantation Consultancy Agreement.

6.3 Directors of the Responsible Entity

David Peter Blackwell - Director

David Blackwell has a background in personal finance, insurance, investment and real estate. He has been a holder of Proper Authorities with various licensed dealers and currently holds real estate licences in Queensland and Western Australia. He is also accredited with many banking institutions.

Mr Blackwell has worked in the financial services and real estate industry for the last ten years and has considerable experience in financial consulting and investment advice.

Mr Blackwell is the Managing Director of Springscene Pty Ltd, a successful financial planning company specialising in financial and investment advice.

He has worked in the horticultural industry and has knowledge of forestry cultivation and nursery management.

William Leslie Fulcher - Director

B.Bus CPA

Mr Fulcher has many years' commercial experience as an accountant and has been the principal of a Public Accounting practice for the last 10 years. He holds a bachelor of Business, majoring in accounting, from the Western Australian College of Advanced Education. Mr Fulcher is a member of the Australian Society of CPA's. Through his accountancy practice his firm provides accounting, management and taxation consultancy to clients in a diverse range of business and industries, Mr Fulcher provides corporate advisory services to both public and private companies and is a Director and Company Secretary to several private and unlisted public companies.

Mr Fulcher has also had extensive experience in the development and ongoing management of Paulownia Hardwood Forestry Projects.

David Monteleone - Director

Mr Monteleone has been an adviser in the mortgage origination industry for the past 5 years. He is also a Director of Paulownia Farm Management Australia Ltd, Goldzone Investments Pty Ltd and Paulownia Centers Pty Ltd.

Mr Monteleone's knowledge and experience has allowed him to be instrumental in providing reliable ongoing tree husbandry and long term farm management strategies for the Paulownia plantation at Moora. He also has extensive experience in the operations of tax-advantaged industry projects.

Mr Monteleone also has experience in the growing and management of Paulownia trees. As a Director of Paulownia Farm Management Australia Ltd he has been involved in the hands-on management of Paulownia trees under the Managed Investment Scheme on the Moora property.

6.4 The Custodian

Huntley Custodians Limited (A.C.N. 082 237 241), a company based in New South Wales, has been appointed as the custodian of this Project pursuant to the Agency Agreement, a summary of which can be found in Section 10.

Huntley Custodians Limited provides managed investment services to investors, developers and promoters of managed investments in Australia.

The Huntley Group holds an Australian Financial Services Licence, and acts as responsible entity, custodian, trustee and/or manager for over 30 prescribed interest and managed investment projects approved by the Australian Securities and Investments Commission and regulated by the Corporations Act. In this capacity, The Huntley Group represents over 20,000 private investors.

These projects include residential property investments, commercial property syndicates and trusts, mortgage investment and debenture programs, property development ventures, resource and agricultural investment projects.

Staffed by lawyers, accountants, property professionals and specialist consultants, The Huntley Group seeks to protect the interest of investors in these projects and provide developers and promoters with assistance on regulatory issues relating to the raising and management of capital from private investors.

The Directors of Huntley Custodians Limited are as follows:

John H Knox – Chairman & Managing Director

John is a Chartered Accountant by profession and is a Fellow of the Institute of Chartered Accountants. He practiced for twenty years specialising in the areas of business development, management and tax consultancy. Following the sale of his practice in 1978 John ventured into commerce. He established and took equity interest in companies in construction and property development as well as medical and pharmaceutical fields.

In 1983 John moved to England and subsequently was appointed as managing director of a specialist advertising group that was suffering financial problems. Following a successful restructure and restoration to profitability he moved to new assignments in Gibraltar and Spain. Upon returning to Australia in the mid 90s John has been involved in management consultancies, mainly assisting businesses in financial difficulties.

In more recent years he has become interested in Prescribed Interest Schemes and the managed investments industry – initially due to an appointment as managing director of a substantial group that promoted Prescribed Interest Schemes. He successfully resolved many of the company's financial and legal problems, including the sale of non-core assets and the resolution of major litigation between shareholder groups. Following the sale of this business John, together with his partner Stephen Law, established a specialist funds management group providing consultancy services to clients in corporate governance and strategic issues, in addition to advising on financing mechanisms for management investment funds.

Stephen Law – Director and Company Secretary

Stephen holds a Diploma of Law and is admitted as a solicitor to the Supreme Court of New South Wales. He is a Fellow of the Australian Insurance Institute.

He has had more than 20 years experience as a company secretary and corporate counsel specialising in corporate and administrative management of small to medium sized listed public companies. In addition to company secretarial functions, he has been widely involved

in the development of managed investment schemes and the preparation of Prospectuses and Product Disclosure Statements for public offerings.

Graham Swain –AM-Non Executive Director, Operations Agribusiness Project

Emeritus Professor Graham Swain AM is the retired Deputy Vice-Chancellor of the University of Western Sydney and Chief Executive Officer UWS Hawkesbury.

He was formerly Principal of the Hawkesbury Agricultural College; foundation Dean of Applied Science of Riverina College of Advanced Education; Associate Professor/Senior Lecturer in Agronomy at University of New England and Research Supervisor/Research Agronomist at Wollongbar Agricultural Research Station of NSW Department of Agriculture. He was a Fulbright Scholar at the University of Maryland.

Graham was appointed a Member of The Order of Australia (AM) in 1991 and a Fellow of the Australian Institute of Agricultural Science and Technology (FAIAST) in 1979. He is a Fellow of the Australian Institute of Company Directors (FAICD). In May 2000 the University of Western Sydney conferred on him a Doctor of Letters Honors Causa (Hon.D.Lit.). In 1993 he was the first to be awarded the title of Emeritus Professor by the Board of Governors of the University of Western Sydney. Since retirement he has served as a director of three agricultural production companies.

Stanley Coupe – Non Executive Director

Stanley Coupe is the former Managing Director of George Weston Foods Limited, where he worked for 22 years, following his retirement he was appointed Chief Executive of F H Faulding and Co. Pharmaceuticals in South Australia. He subsequently returned to Sydney and established his own consultancy company concentrating in the property, architecture and the Tea Tree Industry.

Though retired and with many other interests Stanley Coupe continues to assist as a non-executive director on a number of Boards. His experience in managing major companies with particular emphasis in manufacturing, marketing, strategic planning and communication provides an enormous skill and knowledge base.

Bill Foxall – General Manager

Prior to embarking on his corporate career, Bill was a senior officer in the Australian Army. Since leaving the Army, he has held a number of senior management positions in the managed investments industry. Bill has a degree in management and strategic studies and is a Fellow of the Corporate Directors Association of Australia.

7.0 Project Risks

7.1 Project Risks

Participation in the Project should be viewed as being made for a fixed and specified term. Interests in the Project are likely to be illiquid since it is unlikely that a secondary market will exist for the sale of the Timberlots.

The material risk factors in relation to the investment in the Project are set out below, however Applicants should examine the full contents of this Product Disclosure Statement and consult their professional advisers before deciding to invest in the Project.

The Project is a long-term venture and is speculative. Consistent with its nature as a long-term primary production activity the risks involved in participating in the Project include the long-term nature of establishing, growing and harvesting commercial Paulownia timber.

The Responsible Entity has identified the following risks:

- increased competition from other new world producers of Paulownia;

- physical risks, such as fire, other acts of God, insect infestation, disease, frost, flood, hail, storm damage and drought;
- changes in cost incurred in harvesting and milling Paulownia, or changes in money values through inflation, changes in prices for the produce or exchange rates;
- changes in government legislation which may affect the viability or profitability of the Project;
- access to infrastructure, including irrigation and transport;
- any changes to the basis of taxation during the life of the project or any other significant levies, taxes or imposts on the Project;
- the effects of GST on the outcomes the project and the future economy in general after the introduction of GST into Australian taxation on the 1 July 2000;
- the ability of the Responsible Entity to meet its obligations;
- payment by Growers of their annual contributions;
- the inability of the Responsible Entity to be able to find a buyer for the timber produce;
- default by the Plantation Contractor under the Plantation Sub-Contracting Agreement;
- other normal or usual risks attaching to long-term agricultural projects;
- default by Lessor of the head lease;
- physical risks such as rabbits, foxes, birds, kangaroos, disease and herbicide damage;
- changes in technology in the construction industry such as the replacement of timber by steel or plastic;
- both real and nominal movements in timber prices and growing and handling costs;
- exchange rates and currency fluctuations;
- downfall in residential, commercial and industrial construction industry;
- native title claims over the Project Land;
- the collapse of world markets for the product being produced;
- force majeure events.

The profitability for the Grower is dependent on the success of the Project and the risks specified above may affect the value of your investment in the Project.

The long-term nature of the Project makes this a speculative business that may be affected adversely by events beyond the control of the Responsible Entity.

Growers have no right to require their Interests in the Project to be bought by the Responsible Entity or any other person, or to have their Interests in the Project redeemed or repurchased.

The Responsible Entity has previously applied to the Australian Taxation Office for a Product Ruling and was issued with PR.1999/70 in regard to the Paulownia Tree Farming Project No.1.

The Responsible Entity also applied to the Australian Taxation Office for a Product Ruling and was issued with PR.2000/92 in regard to the Paulownia Tree Farming Project No.2.

The Responsible Entity has currently applied to the Australian Taxation Office (ATO) for a Product Ruling for this Project No.3. Growers should be aware that although the Responsible Entity has taken all reasonable steps to ensure the tax deductibility of the expenses paid by the Growers, it should be noted that if the deduction is disallowed by the ATO for any reason the investors who receive amended assessments could also be required by the ATO to pay penalties and interest.

Note: In any primary production venture there will always be risks due to unforeseen circumstances, which may result in some of the trees dying. In order to minimise this factor at the commencement of the project any of the trees that die as a result of planting on a Grower's Timberlot will be replaced by the Plantation Sub-Contractor for a period of two years from the date of purchase. The first two years of the Project is the period with the greatest loss potential in relation to the number of trees. The later years may also suffer a

greater financial loss per tree due to its age and the volume of timber per tree at the time of the loss.

7.2 Title to the Land

The land being leased to the Growers by the Lessor was acquired by the land owning company under a freehold title.

Much of Western Australia is covered by Native Title claims but to the best of the Directors' knowledge, there has been no traditional Aboriginal association with the land being owned by the Lessor for many decades.

The directors of the Responsible Entity are not aware of any pending Native Title claim in respect of the land, which the Lessor company has a right to use and is offering leases to the Growers. Any native title to the land would be extinguished by the grant of a freehold title and the Racial Discrimination Act of 1975 ("RDA") would not invalidate the grant of the freehold title as the grant occurred before RDA came into operation.

7.3 Borrowings

There are no borrowings required by the Responsible Entity in order to conduct its activities associated with this Project.

Any borrowings that a Grower may enter into as a result of their involvement in this Project are entirely their own decision. Intending investors should seek their own professional advice on any loan arrangement that they may enter into.

AFFORESTATION PTY LTD

Charles Peaty

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SOUTH FREMANTLE

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5th July 2005

The Directors,
Paulownia Farm Management Australia Ltd.,
45 Roberts Street
OSBORNE PARK W.A. 6017.

PROJECT FORESTER'S PAULOWNIA PLANTATION TECHNICAL REPORT- PAULOWNIA TREE FARMING PROJECT No. 3

This Report has been prepared by the undersigned and relates to a Product Disclosure Statement inviting the public to participate as growers in the Paulownia Tree Farming Project No.3 (Project). This will be additional to the two very successful Paulownia plantations already growing on the land at Agaton Road some 21 kilometres northwest of the town of Moora in the central west agricultural area of Western Australia.

The purpose of the Project is to plant, and maintain Paulownia *fortuni* trees through their growth period of 15 years and then, for the Responsible Entity, to harvest and sell the Paulownia timber on behalf of the Growers.

INTRODUCTION

Paulownia is an attractive, fast growing deciduous tree with its origin in China and is noted for its deep rooting habit and for the production of timber of excellent quality and with beautiful figuring that makes it very suitable for use in furniture, interior paneling, musical instruments and general house mouldings.

Covering a range of climates, from temperate to tropical in China, there exists some 10 species of Paulownia trees, out of which, that suited best to the Western Australia climate and most suitable for timber production is known as Paulownia *fortunei*. Some of the other Paulownia species are known for producing suitable animal fodder from their very large leaves. There is now some two million hectares of cultivated Paulownia in China which has been derived from the remaining small areas of natural forest.

The climate, soil and cultivation requirements of Paulownia have been well documented and suitable areas of the Central West Region of Western Australia have met these where Paulownia can be shown to have grown excellently in the form desired for the production of timber. The trees have a need for high levels of solar radiation, and they respond well to irrigation and, under cultivation have the ability to produce straight logs of quality timber reasonably quickly compared to other timbers. These required conditions for growing Paulownia are all incorporated in the Agaton Road land located in Moora.

THE SITE

The land chosen for this project lies on the western side of Agaton Road approximately 21 klms northwest of the town of Moora. Two previous Paulownia projects have been successfully grown on the site. The site section for this Project is on land that is available within the confines of a larger property. The total size of the property is approximately 3500 acres. The previous Paulownia Projects are doing well and the new trees will share the expertise of the existing Paulownia farm management team. The land has already been irrigated and has a dam and bore servicing the water requirements for the trees along with the necessary infrastructure and buildings necessary for the care of the trees.

The site is located directly over the water aquifer known as the Agaton Basin, for which the appropriate water licenses have been obtained, with the one bore on the property having a suitable capacity to sustain 260,000 litres per hour. The site is undulating and consists of well drained deep yellow sand plain soils with the water at a depth of approx 100 metres. The water is low in soluble salts but relatively high in iron. The iron content can easily be alleviated by the construction of an aeration channel running into a small settling pond, and then being siphoned into the larger holding dam. By implementing this system between the bore and the irrigation pump it has the effect of reducing the iron to an acceptable level and makes the water suitable for the extensive trickle irrigation system.

By reviewing the existing trees, under the care and maintenance of the current farm manager, it shows that sound silviculture practices have been given to the existing trees on the first stages of the site. Based on this observation I am of the opinion that the new plantation project should also do very well. I estimate the water needs of a tree at the height of the summer to be around 30 litres per day which can be attained with the existing bore, dams and irrigation systems.

It will be necessary to initiate and maintain a regular fertigation program (delivery of fertilizer to the plants via irrigation water systems) for the trees with phosphorous, copper and zinc, plus a supply of trace elements. The existing pump house has all of the required plant and equipment for the application of the required fertigation programs. Paulownia trees are gross feeders and by conducting leaf analysis at regular intervals it enables a balanced fertilizer mix to be formulated in order to maximise tree growth being obtained.

Paulownia is actually drought tolerant and can successfully survive the West Australian

Summers without water, but in those conditions their growth becomes slow. To offset these Western Australian climatic conditions it is necessary to consistently maintain the formulated irrigation and fertigation programs. The irrigation is not necessarily required in the normal winter months, being from June to October, during the Paulownia trees leafless rest period

PLANTATION ESTABLISHMENT

The successful establishment of a Paulownia plantation is based on the attention paid to the site preparation and cultivation, selection of good planting stock, and the survival and management of the resultant trees "take" into the rapid growth phase of their development.

The new tree plantation stock is derived from "rootlets" obtained from well-grown and strong trees that have been carefully selected and dug up with the root system complete. From these hand picked roots the "rootlets" are selected and are cut into 7.5cm lengths, up to 2 – 5cm thick. As soon as they are cut these "rootlets" are kept moist and taken to the planting site and planted 9cm deep in a shallow trench which has been previously prepared ready for the plantings. A small reserve of trees will be hand planted into nursery trays or nursery suits, to serve as refills in case some of the plantation trees fail. Failure is rare, but the nurseries are established as a safety factor to ensure a full stocking of trees on each Timberlot in the event of deaths occurring in the field. During the time that the plantation trees are being established it is good practice to have a standby of trees already growing and available to use for refill purposes. Any deaths that may have occurred in the first year will be replanted from nursery stock.

Prior to planting - a shallow trench is dug out along the planting line. The planting line, plus its surround area, is then freed of weeds with a herbicide. Depending on the success rate this may have to be repeated again to ensure a clean weed free planting site. Irrigation piping is then laid within the planting line trench with flushing controls attached at each end. Drippers are inserted with spacings of 2.5m to service the trees.

It is a characteristic of Paulownia to grow branchy after the initial planting. To counteract this growth pattern, each tree is coppiced within a two-year period. This operation requires that the tree be cut back to ground level just above the root collar, usually in the second year. This is to ensure that the new growth will provide a trunk of at least 4 - 5 metres one season's growing period. By coppicing, it also has the added benefit of producing a more uniform crop than a plantation with varying sized trees. The aim in growing plantation Paulownia for timber is to produce a branch free trunk with a sufficient canopy to sustain its rapid growth pattern.

The trees are planted in a grid pattern of 2.5metres x 4metres (1000 trees per hectare) with the intention of thinning them out to 500 metres per hectare around year 8 thus halving the trees numbers per hectare to leave 500 in a grid of 5metres x 4metres per hectare. These remaining trees will then be allowed to grow on to maturity. This also gives the trees crown canopies the opportunity to develop by occupying the air and space of the removed trees. More space allows for more leaves in the crown which allows for more nutrients from both air and light and the extra room for the roots equal more timber at maturity.

Providing the trees with the required amount of nutrients will allow for a crown of sufficient size to produce the timber required for commercial uses.

LOSSES

Even with the care taken in growing the trees there is normally a few losses, but the Responsible Entity has made an undertaking to Growers to replace any trees lost from any cause whatsoever in the first two years. After two years the risk of losses is slight but should one die the neighboring trees will utilise that space to produce an increase in their size. After a certain period of time the replacement of trees that die does not become worthwhile. The risks associated with total loss of trees through fire, drought, weather, insect pests or diseases have not been quantified.

Another loss can occur from the situation whereby, the timber growing in the plantation does not necessarily have the same volume exactly as that which results from the log after being through the sawbench. These losses can be caused by lack

of trunk straightness, a loss in sawing and docking, a loss in shrinkage as the timber dries, losses due to any pith in the center of the log and most of all, conversion of a round log to a square product.

However Growers may be reassured that the Paulownia species is unique in its growth pattern grown under plantation conditions, providing a straight stem, its uniqueness in a long log length, its trunk being unbroken by branches and Paulownia timber can be quickly dried to mitigate some of the losses incurred through shrinkage.

GROWTH RATES

The actual yield will depend on the growing site, the plantation management, and the climate consistency during periods of variation from the normal weather patterns and the effect from sunlight and rain, and, of course, the impact from the appearance of any sudden pestilence.

To date, with there being no actual record of Paulownia clear felling in Western Australia, the figures from Queensland Paulownia plantations have been used in order to ascertain the usual recovery criteria. This indicates that at least 50% of the stem is recoverable with possibly more if the correct thin band saw is used. Using such a Lucas saw to initially break down the log, followed by another 1.5mm bandsaw to produce planks it is possible to obtain rough sawn timber from the Paulownia plantation in Western Australia giving a yield of up to 75% of the log which will provide usable timber which would be suitable for the domestic furniture market.

Past sawmilling results in Western Australia have absolutely nothing to do with the modern bandsawing technique which was designed for furniture making. Today it is possible to produce thin veneers of attractive wood to cover fill-in composite that provides a finish that is the same as solid real wood, having been made from timber as its base material.

From the Paulownia point of view there are two aspects to this depending on particular taste - the production of high-class furniture from the "solid" real Paulownia wood or - a lesser quality veneer timber. Both propositions utilize timber and the market for each is starting to become huge, both here and in Europe where, especially, the light colour of Paulownia has more appeal against the red colour of traditional Jarrah and red gum timbers. There are emerging markets for both aspects in Australia, Europe and Asia where the increasing wealth and hunger for modern goods is continuing to increase.

THINNING

At 7 to 8 years of age it is proposed to thin out 50% of the trees to relieve the pressure for nutrients on the remaining trees. Depending on the size of the trees these thinnings may be used for poles, posts and rails and the yields are estimated to represent 0.2 metres per tree. Enquiry and comparison with other thinnings indicate a likely return of about \$300 a cubic metre. If the poles and posts are treated the returns could be higher. Various tests have shown that Paulownia seems to be termite resistant and once this is understood by contractors an expanded market for thinnings may well result for temporary fences and poles at a premium price.

CLEARFELL

Clearfell should commence about years 12-15 after the leaf fall and completion of the year's growth. The clearfell process is aimed at the production of quality, knot free logs with a butt length to the first stem variation of around 4-5 metres, above this will be a second length of 3m followed possibly by a third length of 2 metres. The gross volume of millable timber will depend on the type of mill used but 1 metre a tree with 75% of sawn timber is the aim. Obviously the size of the product at the time of clearfell is relevant to yields, with small sizes requiring more cuts, resulting in additional sawdust loss.

YIELD

Thus a typical Grower's Timberlot of 100 trees which is thinned in year 8 and clearfelled in years 12-15 is estimated to yield the following:

Year 8: 50 trees sold as round logs at average saleable volume of 0.20 cubic metres per tree = 10 cubic metres per Timberlot.

Years 12-15: 50 trees sold as 75% average saleable volume of 0.76 cubic metres per tree = 38 cubic metres per Timberlot.

These estimates make no allowance for natural disasters, bird damage to trees from perching on the top and nibbling the attractive bark, irrigation breakdown and so on. These are things that can unpredictably occur and therefore the volumes have been reduced by 25%, which still leaves the hectare production high at 75 cubic metres (year 8) and 285 cubic metres (year 12 to 15) respectively.

If, further, one assumes an average of 60% utilization of the mature log you get 171 cubic metres of timber for sale per hectare at years 12 to 15 or an average of 17.1 cubic metres per Timberlot. These anticipated returns (plus the thinnings of 60 cubic metres per hectare) should be considered a good return for this Project.

PRICE:

The size of the Paulownia plantation Project, taking into account the increase in trees from Projects 1 and 2, should provide some certainty that a local sawmill will do the conversion to timber, at least to the primary breakdown stage on the property, so as to minimize the cost of transport. The estimated cost of the felling, trimming and haulage to mill followed by the sawmilling will be in the vicinity of \$300 per cubic metre per Timberlot (Department of Primary Industries, Queensland).

According to the Department of Primary Industries the likely sale value of such timber is in the region of \$680 - \$980 cubic metre rough sawn which equates to \$1040 - 1600 cubic metre retail. It is my experience with local timbers that the more exotic they are the greater the demand (experience with Ecomill Sawmills in Fremantle over two years) and if they are properly displayed and promoted then the market comes to you.

This means the average Timberlot of 100 trees will earn 76 cu metres x \$680 = \$51,680 (and at the higher price could return 76 cu metres x \$980 = \$74,480) if all goes well over the fifteen years, plus the Grower will also receive any earning from the thinnings at year 8.

GENERAL

The older forests in Western Australia have largely been shut down and stopped from producing, in order to preserve them for the future, and as a consequence of this the timber industry in has had to rethink its role. Plantations are rapidly becoming the future source of wood that will be required to feed the demand from the up to date sawmills. The world's consumers are already clamoring for all sorts of wood simply because the human taste is so varied and the result from this demand will continue to put further pressure on native forests.

Paulownia fits into this picture very well because it has a very fine figuring, is extremely light in weight, requires minimal drying to stabilize it, works well, finishes well and has general uses as well as specialized uses for the making of quality furniture and purpose built wall paneling and fit outs.

Paulownia timber should appeal to users because it has the following characteristics:

Dimensionally stable, clear and easy to work and gives a silky finish, slices and peels Easily, producing excellent veneers. It has little tendency to crack or twist. It is also suitable for moulding and turning work. It has an air-dry density of 0.30 and is relatively strong.

Excellent for furniture, cabinet making, moulding, model building, general building products such as cupboard doors, window frames, cladding and panels and making musical instruments.

Thus, its major opportunity in Western Australia is in its comparison with the hardness of many local timbers, Paulownia is relatively soft, relatively strong, easy to work and lightweight.

Paulownia is a suitable timber that can meet the general supply imbalance which is requiring local timbers to try and meet the increasing demand whilst the imported timbers struggle against an adverse exchange rate.

As with any commodity in a long-term project it is not possible to predict with certainty future demand levels or future prices. A number of factors will directly impact on price levels; the growth rates of natural forests; the growth rates of timber usage and development of cheaper alternative products. It has to be said that, in the lifetime of the writer, there has always been an undercurrent stating that timber products will be replaced by alternatives eg: plastic. However this has not come about and if anything the reverse has occurred - people have become used to plastics and a cheap product, while the demand for timber has increased as wood is still seen as a quality product. Also peoples taste has moved away from the dark local woods like Jarrah and Tuart to the lighter coloured timbers which have the effect of creating light and bright interiors and finishes.

DEMAND AND SUPPLY OF SAWNWOOD.

About 60% of sawn timber is used in dwelling construction which includes houses and extensions, with the remaining 40% used for replacement repairs and furniture. Australian production of sawnwood is around 4 million cubic metres a year (ABARE Paper of Nov 2004) and imports are generally in excess of 1 million cubic metres, mainly from North America and New Zealand but with tropical timber Meranti and other timber species being brought in from Indonesia and other near Pacific countries.

So far our own Radiata pine has been too young to supply the timber for building purposes but this is changing rapidly as plantations mature fast. No longer do builders insist on Jarrah for supporting roofs but utilize the cheaper and lighter pine. Paulownia fits into the window frames, and paneling category for lightness and speed of work and also increasing demand from the furniture trade where people are also looking for lightness.

These factors illustrate the changing public taste and together with the arrival of more immigrants it will ensure that the present sawntimber consumption of 5 million cubic metres will increase to the projected 7 million cubic metres per annum by 2030.

Plantation establishment is currently occurring, to supply Asia with paper supplies and to start to supply Australia with the resources needed to supply the demand for building and furniture needs. According to ABARE (Australian Bureau of Agricultural and Resource Economics) sawlog production will continue, NOT to be met from homegrown supplies, but will have to be augmented by imports. This shortfall in the demand for timbers is put at around one million cubic metres per annum by 2030.

LONG TERM PROJECTIONS – PAULOWNIA.

In eastern Australia, Paulownia is being harvested in modest quantities with the sawlogs being milled and processed into boards and jointed panels. These products are being manufactured into high value moulded products, like cupboard doors, furniture, door and window frames, panels and household fittings and has been accepted by the local joinery and cabinet-making trade as being an excellent wood to work with.

The C.I.F. price for 15 year old roughsawn Paulownia timber, imported into Australia from China has averaged AUD\$ 913 per cubic metre. This is not to say that there has not been an initial resistance to the new timber when first introduced into Western Australia but this is now being overcome as its value is appreciated.

SALES AND MARKETING

The Responsible Entity for this Product Disclosure Statement will sell the timber on behalf of the Growers on a best price basis.

PLANTATION SUB-CONTRACTOR

The plantation sub-contractor, engaged by the Responsible Entity, also manages the two previous Paulownia plantation projects and has been able to develop those projects using first class silviculture skills developed over several years, both in the nursery and in the field. The plantation sub-contractor has been ably supported by staff that are experienced with irrigation, fertigation and raising new Paulownia stock in the nursery. It is therefore, my opinion, that these people will do everything necessary to ensure the success of the project and, indeed, work within the time frame forecast for the Project.

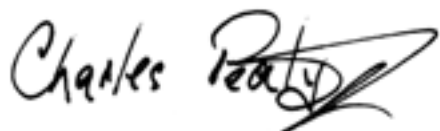
SUMMARY

The need for plantations is now recognized world wide with two thirds of the world's native forests already destroyed. To the north of Western Australia lie two huge populations that are only just beginning to realise their quickly expanding market possibilities, yet they are very short of timber so they must look elsewhere for it. In my opinion their demands are going to grow fast and may well look to Australian supply, taking everything we have to offer.

This will have a major affect on our home market also. Therefore, I have little doubt that the Responsible Entity will find a demand at home and overseas for the Paulownia timber. Planting now should produce timber in 12 – 15 years which, by that time will be in great demand. Against this, one cannot predict what will happen to inflation or the rate at which the demand for timber will expand, but all of the present indications show that the demand for timber will continue to grow and that as resource it will continue to decline.

DISCLAIMER

Afforestation Pty Ltd believes that, after reviewing the proposed Project, the Paulownia plantation should succeed and should provide a return to the Growers but the Company does not give any assurances or guarantees as to the returns on the capital invested the future viability or sale prices received on the sale of the timber.



**Charles Peaty Bachelor of Science (Forestry)
Independent Forester.**

SECTION 9 – FINANCIAL ACCOUNTS

Introduction

This section of the Product Disclosure Statement presents extracts of the financial reports to 31st May 2005 for the Responsible Entity. The Responsible Entity is a public company, and is required to prepare audited accounts for each financial year. A full copy of the financial statements, including all notes to accounts, is available on request, from the Responsible Entity at 45 Roberts Street Osborne Park WA 6017.

Financial Accounts of the Responsible Entity

Extract of Audited Statement of Financial Performance

For the year ended 30st June 2005

	30th June 2005 \$	30th June 2004 \$
Operating Revenues from Ordinary Activities	2,605,968	926,622
Operating Expenses	1,285,763	452,690
Borrowing Costs	0	0
Administrative Expenses	572,850	446,162
Profit/(Loss) from Ordinary Activities before Income Tax	39,782	27,770
Income Tax Benefit/(Expense)	12,391	7,245
Profit/(Loss) from ordinary activities after Income Tax	27,391	20,525
Total changes in equity other than those resulting from transactions with owners as owners	0	0

**Extract of Audited Statement of Financial Position
For the Year Ended 30th June 2005**

	30th June 2005	30th June 2004
	\$	\$
Current Assets		
Cash assets	32,847	343,984
Receivables	1,824,890	497,349
Other	0	0
Total Current Assets	1,857,737	841,333
Non-Current Assets		
Property, plant and equipment	23,353	2,626
Loans to Related Entities	1,100	1,000
Total Non-Current Assets	24,453	3,626
Total Assets	1,882,190	844,959
Current Liabilities		
Payables	1,755,107	745,267
Unearned income	0	0
Interest Bearing Liabilities	0	0
Income Tax Liabilities	0	0
Provisions	0	0
Total Current Liabilities	1,755,107	745,267
Non Current Liabilities		
Interest Bearing Liabilities	0	0
Income Tax Liabilities	0	0
Total Non Current Liabilities	0	0
Total Liabilities	1,755,107	745,267
Net Assets	127,083	99,692
Equity		
Contributed Equity	50,000	50,000
Retained Profits	77,083	49,692
Total Equity	127,083	99,692

10.0 SUMMARY OF MATERIAL AGREEMENTS

This section contains summaries of the principal terms of material documents which relate to the Project.

The material documents are:

- Constitution of the Paulownia Tree Farming Project No.3.
- Compliance Plan of the Paulownia Tree Farming Project No.3.
- Lease and Management Agreement
- Custodian's Agency Agreement
- Forestry Experts Consultancy Agreement
- Plantation Sub-Contracting Agreement

The whole of the provisions of these agreements are not repeated in this Product Disclosure Statement. Copies of the agreements are available for inspection free of charge at the registered office of the Responsible Entity during normal business hours.

The Constitution of the Paulownia Tree Farming Project No.3

The Constitution is dated 23 May 2005 and operates as a deed binding on all of the Growers and the Responsible Entity. The Constitution for the Scheme Project is the document which establishes a Managed Investment Scheme known as the Paulownia Tree Farming Project No.3 (ARSN 115 342 713). In compliance with the Corporations Law the Constitution has made adequate provision for those matters referred to in Section 601GA of the Corporations Law.

The Constitution provides as follows:

The Responsible Entity

The Responsible Entity is appointed and agrees to act as responsible entity of the Project known as the Paulownia Tree Farming Project No.3.

Application Price

To acquire an Interest in the Project and become a Grower an Applicant must pay the application price (being \$4,000 including GST, per Interest).

Creating the Funds

The Responsible Entity must create an application fund (to hold application monies) and a proceeds fund (to hold the proceeds from the sale of timber).

Scheme Property

The Responsible Entity must appoint a custodian as agent to hold scheme property.

Power of Investment

Subject to the Constitution and the Corporations Law the Responsible Entity may direct the Custodian to invest all or part of the application fund or the proceeds fund in authorised investments.

Complaints

The Responsible Entity has appointed a complaints handling officer to deal with complaints made by Growers. Any Grower may make a complaint about any aspect of the Project. The Responsible Entity must within five business days after receiving the complaint, write to the complainant either to acknowledge the complaint or respond to the complainant in respect of the complaint made.

The Responsible Entity must attempt to respond fully to the complainant within 10 business days after acknowledgment of the complaint is made by the Responsible Entity. The Responsible Entity must treat all complaints seriously and deal with them in a timely manner having regard to the nature of the complaint. If a complaint cannot be resolved to the satisfaction of the complainant then the complainant may proceed under the resolution procedures contained in the Constitution, lodge a complaint with an external complaints resolution body of which the Responsible Entity is a member or take whatever action is open to the complainant under the general law.

Winding Up

The Responsible Entity must wind up the Project No.3 in any of the following circumstances:

- on the direction of the Growers;
- if the Responsible Entity considers the purpose of the Project has been accomplished or cannot be accomplished;
- a court orders the Project No.3 to be wound up; or
- in any other circumstance provided for under the Corporations Law.

To wind up the Project No.3 the Responsible Entity must convert to money all scheme property, deduct all proper costs and then divide the balance amongst Growers according to each Grower's proportional share. During the winding up of the Project No.3 the Responsible Entity may terminate any other agreements or arrangements it has entered into with the Growers which relate to the Project No.3. Once the Responsible Entity believes the winding up is complete, the Responsible Entity must engage a registered company auditor to audit the final accounts of the Project No.3.

Fees and Expenses

The Responsible Entity is entitled to be paid from scheme property those fees provided for in the Constitution and any Lease and Management Agreement by way of remuneration for carrying out its duties and obligations under the Constitution or any Lease and Management Agreement. The Responsible Entity is entitled to be paid from, or reimbursed from scheme property for all costs, charges and expenses which are incurred by the Responsible Entity in the proper performance of its duties in establishing, administering or winding up the Project No.3.

Indemnity

The Responsible Entity has a right of indemnity out of the scheme property in respect of any liability incurred by the Responsible Entity in the performance of its duties in respect of the Project and all fees payable to and costs recoverable by the Responsible Entity under the Constitution or the Lease and Management Agreement. The rights of the Responsible Entity for indemnity out of the Project No.3 scheme property are available only in relation to the proper performance of the Responsible Entity's duties.

Power to Borrow

The Responsible Entity does not have power to borrow for the purpose of the Project.

Withdrawal Rights

There are no withdrawal rights available to Growers under the Constitution.

Applications

The Responsible Entity must not invite persons to enter into Lease and Management Agreements pursuant to the Constitution unless the Responsible Entity has issued, and there is then current, a Product Disclosure Statement. The Responsible Entity, in its absolute discretion, may accept or refuse any application to enter into a Lease and Management Agreement with any Applicant for any reason and will not be required to provide a reason for refusal to the Applicant.

Application Monies

All application monies are to be paid by Applicants directly to the Custodian who must place those monies in the application fund.

Lease and Management Agreements

The Responsible Entity shall execute a Lease and Management Agreement for itself, shall procure the Lessor to execute the Lease and Management Agreement and will execute the Lease and Management Agreement on behalf of the Applicant pursuant to the Power of Attorney granted to the Responsible Entity by the Applicant.

Releasing Application Monies

Prior to releasing any application monies held by the Custodian, the Responsible Entity must be reasonably satisfied that:

- the Lease and Management Agreement has been duly completed and executed by all parties;
- the Lessor has the capacity to grant the lease;
- the property the subject of the lease is not subject to any encumbrance or restriction which detrimentally affects the interests of the Applicant and which is not disclosed in the Product Disclosure Statement;
- there are no outstanding material breaches of any of the provisions of the Constitution detrimental to the interests of Applicants; and
- the minimum subscription requirements set out in the Product Disclosure Statement have been obtained.

Upon being satisfied of the matters listed above the Responsible Entity must direct the Custodian to release the application monies and apply them in payment of the fees payable under the Lease and Management Agreement.

Power and Duties

The Responsible Entity has all the powers of a natural person and all powers that are reasonably necessary for it to carry out its functions and duties under the Constitution.

The Responsible Entity shall:

- manage the business, investments and affairs of the Paulownia Tree Farming Project No.3; and
- ensure that all services which are reasonably required by Growers under the Lease and Management Agreement are performed in a proper and efficient manner.

The Responsible Entity is at liberty to establish and act as the responsible entity in relation to other Managed Investment Schemes.

Limitation of Liability

To the extent permitted by law the Responsible Entity is not liable for any loss or damage to any person arising out of any matter where, in respect of that matter:

- it relied in good faith on the services of or advice from any person appointed by it;
- it acted as required by any law; or
- it relied in good faith upon any signature, marking of documents.

However, nothing will have the effect of exempting the Responsible Entity from, or indemnifying the Responsible Entity against, liability for breach of trust where the Responsible Entity fails to show the degree of care and diligence imposed under the Corporations Law and the Constitution.

Transfer and Transmission

Assignment of a Lease and Management Agreement is governed by Clause 25 of the Lease and Management Agreement. Clause 21 of the Constitution contains details of certain administrative procedural matters relating to assignment. Clause 22 of the Constitution

deals with transmission of Growers interests and provides that the legal personal representative of a deceased Grower will be the only person recognised by the Responsible Entity as having any title to or interest in the Grower's Interest.

Retirement and Removal

The Responsible Entity may only retire as responsible entity of the Project in accordance with Section 601FL of the Corporations Law. The Responsible Entity may only be removed as Responsible Entity of the Project in accordance with Section 601FM of the Corporations Law.

Register

The Responsible Entity must keep an up-to-date register of Growers in accordance with Clause 26 of the Constitution.

Meetings

Meetings of Growers shall be held in accordance with the provisions of Part 2G.4 of the Corporations Law.

Accounts

At the end of each financial year the Responsible Entity must prepare or cause to be prepared all reports required to be prepared by Part 2M of the Corporations Law and must send copies of those reports to all Growers.

Modification of Constitution

Subject to Section 601GC of the Corporations Law the Constitution may be modified by the Responsible Entity or by special resolution of Growers.

Lease and Management Agreement

The parties to the Lease and Management Agreement are the Responsible Entity, the Lessor and the relevant Grower. The Lease and Management Agreement is divided into three parts being:

- a lease of one or more Timberlots,
- establishment of the relevant Grower's Paulownia Plantation.
- management of the relevant Grower's Paulownia plantation, and
- general provisions.

THE LEASE:

Grant of the lease

The Lessor grants to the relevant Grower, and the relevant Grower takes from the Lessor, a lease of the leased area (comprising one or more Timberlots), together with any fixtures for the term.

The Lessor reserves the right to:

- install, maintain, use, alter and replace the fixtures leading through, over or into, or as situated upon the leased area;
- to convey gas, water, nutrients, herbicides, pesticides, electricity and other power through, over or into or upon the leased area; and
- to pass over the leased area at any time to gain access to the land adjoining the leased area.

Rent

Rent for the Initial Period (the period commencing on the 1 July 2006 date and ending on 30 June 2007) is \$22.00 per Timberlot and is paid out of the relevant Grower's application money. In respect of each financial year after year one the rent per Timberlot increases by 4% per annum or the CPI, whichever is the higher.

Use of The Leased Area

The relevant Grower covenants that it will:

- not use or permit any other person to use the leased area for any purpose other than for commercial silviculture;
- not erect any building, construction (whether temporary or permanent) on the leased area, except with approval from the Lessor and for the purpose of commercial silviculture;
- not use or permit any other person to use the leased area for residential, recreational or tourist purposes;
- plant, establish, cultivate and manage trees on the leased area and from time to time harvest (or harvest and process) the trees and sell the trees harvested (or harvested and processed);
- use all reasonable measures to keep the leased area free of vermin, noxious weeds and pests;
- do all things necessary to prevent the outbreak or spread of fire and will comply with all reasonable directions of the Lessor in relation to the prevention and control of fire; and
- give the Lessor prompt notice in writing of any accident to, or defect or want of repair of any fixtures, plant or machinery on the leased area and of any circumstances causing or likely to cause any danger, risk or hazard to the leased area or to any other part of the Plantation.

Maintenance, Repair and Alterations

The relevant Grower will at all times keep the leased area and fixtures in good and substantial repair, order and condition. The Lessor may, without notice, enter upon the leased area to view the state of repair, order and condition thereof.

Yield up

The relevant Grower will at the expiration or sooner determination of the term, peaceably surrender and yield up to the Lessor the leased area and fixtures, free and clear of rubbish and in good condition.

Lessor's Covenants

The Lessor covenants that:

- subject to the relevant Grower duly and punctually observing the Grower's covenants, the relevant Grower may peaceably possess and enjoy the leased area during the term without any interruption or disturbance from the Lessor or any other person lawfully through the Lessor;
- the relevant Grower may use common areas in common with the Lessor and other persons entitled to use the common areas for purposes incidental to the use of the leased area for commercial silviculture;
- there are no mining claims or tenements over the leased area which will adversely effect the interests of the relevant Grower; and
- the Lessor will at the Lessor's expense, prior to the commencement date for planting, fully reticulate the leased area in accordance with silvicultural standards applicable to Responsible Entity's requirement for the Paulownia plantation.

General

The Lessor covenants that any leasehold interest granted by the Lessor in respect of any part of the Plantation will be to the effect of the Lease and Management Agreement.

Unless precluded by law, the relevant Grower has an express right to register the lease and a subject-to-claim caveat.

Subject to the relevant Grower not defaulting in any manner, the relevant Grower has full right, title and interest in the forest produce.

Except for the payment of rent, the Responsible Entity agrees to duly and punctually perform the Growers covenants contained in the lease.

MANAGEMENT OF THE LEASED AREA:

Appointment of Responsible Entity

The relevant Grower appoints the Responsible Entity to perform the services and the Responsible Entity accepts the appointment. The Responsible Entity must complete the management services for the Initial Period before the 31st December 2006.

Services

The Responsible Entity must perform the services in a prompt and efficient manner in accordance with the generally accepted silviculture practices. The services comprise the following:

- from the commencement date, being the 1st July 2006, plant Paulownia trees on the leased area at a rate of 100 per Timberlot;
- cultivate, train, fertilise and otherwise care for the trees;
- use reasonable measures to keep the area free from vermin, pests and disease;
- establish and maintain adequate fire breaks;
- replace any trees that fail to establish or die during the first two years of the Project;
- maintain and manage the Paulownia plantation on behalf of the grower for a period of 15 years; and
- harvest and process the trees in accordance with the terms of the agreement.

Reports

On or before 31 July and 31 January in each financial year the Responsible Entity must provide the relevant Grower with a report containing a review of operations of the relevant Grower's timber business during the relevant period. The report must include details of:

- the services provided by the Responsible Entity;
- the health of the trees;
- the quality and quantity of forest produce;
- any unforeseen circumstances which may affect the relevant Grower's timber business; and
- inventory measurements for the forest produce.

Recommendations

The relevant Grower may give written notice to the Responsible Entity setting out the opinion or recommendations of the relevant Grower with respect to the services.

The Responsible Entity covenants to give:

- due consideration to the opinions and recommendations contained in any relevant Grower's notice; and
- to use its best endeavours to carry out any recommendation contained in that relevant Grower's notice.

Calling a Meeting With The Responsible Entity

The relevant Grower has an express right to call a meeting with the Responsible Entity, at a time suitable to the Responsible Entity, to discuss any element of the relevant Grower's timber business.

Delegation

The Responsible Entity may in its subsequent discretion delegate all or any of the duties or obligations to be performed and observed by it under the Lease and Management Agreement.

Harvesting

The Responsible Entity must during year eight, harvest between 40% and 60% of the trees, unless the Responsible Entity reasonably believes it would be in the best interest of the relevant Grower to defer harvesting.

The Responsible Entity must during the years 12 to 15, harvest and process all of the trees, unless the Responsible Entity reasonably believes it would be in the best interests of the relevant Grower to defer harvesting to a later date.

The Responsible Entity shall be paid 5% of the Gross Sale Proceeds of sale in consideration for Marketing of the Paulownia timber and the management and administration associated with harvesting and processing.

Option to Collect

On or before the expiration of two years from the commencement date the relevant Grower may notify the Responsible Entity that it elects to collect the relevant Grower's proportional share of forest produce. The Responsible Entity must advise the relevant Grower of:

- the time and place the forest produce will be available for collection;
- any amount then due and payable by the relevant Grower; and
- the relevant Grower's share of the costs of harvesting and processing.

The relevant Grower must pay to the Responsible Entity amounts due and payable not less than one week prior to collection.

Sale of Forest Produce

If the relevant Grower does not elect to collect forest produce, the relevant Grower is deemed to have irrevocably appointed the Responsible Entity as the relevant Grower's agent for the purpose of marketing and selling the forest produce.

Proceeds of Sale

The Manager must deposit the gross sale proceeds from the sale of forest produce into the proceeds fund with the Custodian.

Payment from the "Gross Sale Proceeds" Fund.

Within ten business days of receiving the gross sale proceeds as cleared funds, the Custodian must pay to the Responsible Entity (and where applicable the Lessor) out of the proceeds fund:

- the 5% of the Gross Sale Proceeds
- the relevant Grower's proportional share of harvesting and processing costs and costs of sale; and
- any amounts owed to the Manager or Lessor by the relevant Grower.

Having made these payments the Custodian will pay 100% of the balance to the relevant Growers.

Insurance

The Responsible Entity is obliged to obtain public risk insurance in respect of the Plantation for an amount of not less than \$1 million for the term.

If requested by the relevant Grower the Responsible Entity must use its best endeavours to arrange insurance of the trees on the leased area on behalf of the relevant Grower. Insurance premiums will be borne, in the case of public risk insurance applicable to the Plantation, by the Responsible Entity, and in the case of the insurance applicable to the plantation on the leased area, by the relevant Grower. The Responsible Entity will apply the interests of the relevant Grower in any insurance proceeds obtained as a result of a successful claim made under a policy of insurance in the following priority, firstly in the payment of any annual contribution payable by the relevant Grower which is due and unpaid, secondly in the payment of any amounts payable by the relevant Grower under the Lease and Management

Agreement or any provision of the Constitution and finally, paying the balance to the relevant Grower.

Destruction of Trees

If all or substantially all of the trees on the leased area are destroyed or in the opinion of the Manager damaged so as to render them unsuitable for further cultivation the Lease and Management Agreement will terminate with effect from the time of the event causing this destruction or damage. If a number of the trees on the leased area are destroyed or in the opinion of the Manager damaged so as to render them unsuitable for further cultivation the Lease and Management Agreement will continue to apply in respect of that part of the leased area on which the remaining trees stand.

Remuneration

In consideration of the Responsible Entity performing the services the relevant Grower agrees to pay to the Manager the management fee and bonus fee.

The management fee for the Initial Period is \$3,978 (inclusive of GST) per Timberlot and is payable from the relevant Grower's application moneys. Thereafter the management fee is \$678.00 (inclusive of GST) per annum per Timberlot indexed at 4% or the CPI, per annum, whichever is higher.

The Marketing and Harvesting Fee is 5% of the Gross Sale Proceeds attributable to forest produce when sold.

Annual Contributions

The relevant Grower must pay to the Responsible Entity the annual contribution on or before 30 June in each year. The annual contribution comprises:

- rent payable to the Lessor;
- the management fee payable to the Responsible Entity; and
- if applicable, the insurance premiums payable by the relevant Grower.

The Responsible Entity may apply the gross sale proceeds in payment of any annual contribution due and payable.

Default

The relevant Grower hereby agrees that if it fails to pay any amount due from the relevant Grower to any party under the Lease and Management Agreement by the due date of repayment the relevant Grower must pay interest on the outstanding amount.

The relevant Grower hereby agrees that if it fails to pay the outstanding amount and interest thereon, on or before expiry of a default notice the Manager may:-

- pay the outstanding amount from its funds and issue proceedings against the relevant Grower to recover the amount paid and for damages for breach of contract;
- recover the outstanding amount from the gross sale proceeds; or
- terminate the Lease and Management Agreement.

On termination of the Lease and Management Agreement in accordance with the above:-

- the relevant Grower will cease to have any further claim or rights in relation to the Project and the trees on the leased area.
- all of the interests of the relevant Grower in the forest produce will be deemed to have been assigned and transferred by the relevant Grower to the Responsible Entity; and
- the Responsible Entity will be responsible for the costs of maintaining the trees.
- the Responsible Entity will be responsible for payment of rent to the Lessor.

The relevant Grower hereby agrees that if it commits any breach or default in the due and punctual observance of any covenants and fails to remedy that breach or default within a time specified by the Responsible Entity, the Responsible Entity may terminate the Lease and Management Agreement.

Assignment, Transfer

The relevant Grower may assign the relevant Grower's interest under the Lease and Management Agreement with the prior written consent of the Lessor and the Responsible Entity, which the Lessor and Responsible Entity may in their absolute discretion withhold. In the event that the consent is granted, then any such assignment must be in writing and must include a covenant on the part of the assignee that the assignee will duly observe the relevant Grower's covenants and a provision under which the relevant Grower releases the Lessor and the Responsible Entity from all claims by the relevant Grower in respect or in any way arising from the Lease and Management Agreement.

THE GENERAL PROVISIONS OF THE LEASE AND MANAGEMENT AGREEMENT PROVIDE AS FOLLOWS:

Term

The agreement will commence upon the date of execution and end on the earlier of:

- the date on which the Constitution is terminated;
- with respect to an electing Grower, the date of collection of the forest produce;
- with respect to a non-electing Grower, the date of final payment from the proceeds fund.

Power of Attorney

The relevant Grower irrevocably appoints the Responsible Entity as its attorney to do and execute all matters, things and documents which are necessary, or which the Responsible Entity considers expedient for the relevant Grower to do or execute (amongst other matters) for the purpose of complying with any duty or obligation imposed on the relevant Grower by the Lease and Management Agreement.

Retirement of Responsible Entity

The Responsible Entity may retire upon giving three months notice to the relevant Grower, provided it has first nominated another corporation or person to be the new manager.

Payment of Stamp Duty and Registration Fees

The Responsible Entity will pay all legal costs but the Stamp Duty, registration fees payable in respect of the Lease and Management Agreement are to be paid by the Grower, unless the parties agree otherwise.

Tax

Any tax or impost (including without limitation on goods and services tax (GST)) payable in respect of the rent, management fee or any other payment or service provided pursuant to the terms of the Lease and Management Agreement, shall be paid by the relevant Grower.

Compliance Plan of the Paulownia Tree Farming Project No.3

The Responsible Entity has prepared a Compliance Plan as required by the Corporations Law to ensure that it meets its obligations as a Responsible Entity and the rights of the Growers are protected. In preparing the Compliance Plan the Responsible Entity:

- undertook a structured and systematic process which considered the Responsible Entity's obligation under the Corporations Law and the Constitution;
- identified the risks of non-compliance; and
- established measures designed to meet those risks.

Part 5C of the Corporations Law states that the compliance plan of a registered scheme must set out adequate measures that a responsible entity is to apply in operating the scheme to ensure compliance with the Corporations Law and the constitution of the scheme.

The Compliance Plan includes arrangements for:

- ensuring scheme property is clearly identified as scheme property and held separately from property of the Responsible Entity and property of any other scheme;
- ensuring that the compliance committee functions properly;

- ensuring that the scheme property is valued at regular intervals appropriate to the nature of the property;
- ensuring that compliance with the plan is audited; and
- ensuring that adequate records of the Project are kept.

It is a requirement of Part 5C of the Corporations Law that the arrangements listed above are specifically dealt with.

In addition, the Compliance Plan sets out procedures in relation to:

- the appointment of a compliance officer and the duties and reports to be prepared by the compliance officer;
- selecting, monitoring and replacing a custodian;
- the marketing of the Project;
- conduct of business issues (such as procedures in relation to compliance with Lease and Management Agreements, insurance, financial requirements, register of Growers, distribution of income to Growers and fees and expenses);
- procedures in relation to application money and the transfer of money from the application fund;
- auditing of the Compliance Plan;
- dealing with related party issues;
- appointing and monitoring external service providers;
- the training, recruitment and experience of staff; and
- internal review of compliance by the Directors.

Custodians Agency Agreement

On 7th July 2005 the Responsible Entity entered into the Agency Agreement with Huntley Custodians Limited (“Custodian”).

Pursuant to the terms of the Agreement the Responsible Entity appointed the Custodian to act as its agent within the scope and on the terms set out in the Agreement and the Custodian accepted the appointment.

The role of the Custodian is to hold the scheme property as agent for the Responsible Entity. Scheme property is defined as the scheme property of the Project from time to time as determined in accordance with the definition of scheme property contained in Section 9 of the Corporations Law.

The term of the Agreement will commence on the date of this Product Disclosure Statement for the Project and will continue until the earlier of:

- termination as provided under the Agreement; or
- the winding up of the Project.

The Custodian agrees with the Responsible Entity to hold the scheme property as agent for the Responsible Entity. The Custodian must:

- hold the scheme property in a proper and safe manner;
- not profit out of holding the scheme property other than by way of remuneration as provided for as in the Agreement;
- observe and carry out the instructions and directions given by the Responsible Entity in respect of the scheme property; and
- promptly forward to the Responsible Entity any notices, correspondence, accounts and other documents received by the Custodian in relation to the scheme property.

The Custodian must maintain appropriate procedures to ensure it complies with the standards imposed by ASIC from time to time for the holding of scheme property. The Custodian must continue to comply with those standards during the term of the Agreement. If the Custodian no longer complies with any of the standards it must immediately notify the Responsible

Entity. The Responsible Entity and the Custodian must then meet with a view to ensuring either:

- the Custodian complies with those standards as soon as reasonably practicable; or
- the Custodian resigns.

The Custodian must provide regular reports to the Responsible Entity on all matters relevant to the Custodian's holding of the scheme property. These reports must be provided no less frequently than twice a year.

The Responsible Entity must do all things reasonably necessary to place the scheme property into the custody and control of the Custodian. The Responsible Entity indemnifies the Custodian in respect of any liability incurred by the Custodian by reason of acting in accordance with any directions or instructions given by the Responsible Entity or performing its other duties under the Agreement as the Responsible Entity's agent. The indemnity does not apply where there has been any negligence, deceit, breach of duty or fraud on the part of the Custodian.

The Responsible Entity and the Custodian agree to liaise throughout the term of the Agreement to enable the Responsible Entity to observe and assess the Custodian's performance of its obligations under the Agreement.

The Custodian must not assign or enter into a sub-agency in respect of its rights, interests and obligations under the Agreement without the prior written consent of the Responsible Entity.

The Custodian is entitled to charge or be paid a remuneration for its services in respect of its role as Custodian as follows:

- a fee of \$5,500 (inclusive of GST) payable upon execution of the Agreement;
- for the first financial year of the Project an annual service fee of \$16,500 (inclusive of GST);
- reimbursement of the reasonable legal costs incurred by the Custodian in relation to the formation of the Project;
- for each year after the first financial year of the Project the annual service fee will be the amount paid in the previous financial year indexed to CPI;
- to the extent that the Custodian is required to perform any additional work in complying with its obligations under the Agreement, the fee for that work will be based on the number of hours worked by executives, employees and consultants of the Custodian calculated at normal and usual professional rates as negotiated from time to time between the Custodian and the Responsible Entity.

In addition to the fees payable, the Custodian is also entitled to be paid or reimbursed all out of pocket costs, charges and expenses incurred in holding the scheme property.

The Custodian may terminate the Agreement by notice in writing to the Responsible Entity if, amongst other matters, the Responsible Entity defaults in paying any money due to the Custodian and continues to be in default for a period of twenty-one days or more after receipt by the Responsible Entity of a written notice.

The Responsible Entity may terminate the Agreement if, amongst other matters, the Custodian is in default of any obligation under the Agreement and continues to be in default for a period of twenty-one days or more after receipt of a written notice.

PLANTATION SUB-CONTRACTING AGREEMENT

On 11 July 2005 the Responsible Entity entered into the Plantation Sub-Contracting Agreement with Goldzone Investments Pty Ltd ("Sub-Contractor").

Pursuant to the terms of the agreement the Responsible Entity appointed the Sub-Contractor to carry out the services for the term of the agreement being the dated execution of the agreement to 30 June 2021. The following services are to be provided by the Sub-Contractor:

- establish, maintain, supervise and manage on a day to day basis, in accordance with good commercial practice, all commercial forestry activities to be carried out on the Plantation,
- remove existing crops on the land, deep ripping and preparation of the surface for intensive plantation requirements,
- plant seedlings at the rate of 1,000 trees per hectare,
- cultivate, prune, fertilise and otherwise care for the trees as and when required,
- keep the plantation free from vermin and pests,
- maintain the irrigation infrastructure, equipment and fences.

The Sub-Contractor must commence planting the trees by no later than 31 December 2006 and complete planting by no later than 30 June 2007 and must replant and replace, at the Sub-Contractor's expense, any trees that die within 2 years of the date of purchase.

In consideration of the Sub-Contractor performing the services the Responsible Entity has agreed to pay standard commercial fees to the Sub-Contractor.

The Responsible Entity may terminate the appointment of the Sub-Contractor:

- if the Sub-Contractor is placed into liquidation or official management;
- if the Sub-Contractor is in default of the due and punctual observance of any of the Sub-Contractor's covenants.

The Sub-Contractor shall obtain insurance against public risk in respect of the Plantation of an amount not less than \$10 million for the term of the agreement. The Sub-Contractor shall insure all plant and equipment used in the provision of the services at the Sub-Contractor's expense.

The Sub-Contractor warrants that all equipment provided to it by the Responsible Entity and any other equipment used by the Sub-Contractor in the performance of the services shall be operated and maintained at the Sub-Contractor's expense in accordance with the manufacturers recommendations.

In carrying out the services the Sub-Contractor shall:

- be allowed full and free access to the Plantation,
- not erect any structures or dwellings on the Plantation,
- not store on the plantation, or use, inflammable, noxious or dangerous substance, and
- use all reasonable care to avoid interference to the operation of the owner(s) or occupier(s) of neighbouring land.

The Responsible Entity will pay all stamp duty and all other legal costs payable in respect of the agreement.

FORESTRY EXPERT CONSULTANCY AGREEMENT

The Responsible Entity entered into the Forestry Expert Consultancy Agreement on 30th June 2005 with Afforestation Pty Ltd ("Consultant") and Charles Peaty ("Peaty").

Pursuant to the agreement the Responsible Entity has engaged the Consultant and Peaty and they have agreed to serve the Responsible Entity by providing the consultancy services for the term of the agreement (30 June 2006 and expires on 30 June 2021).

In consideration of the provision of the consultancy services the Responsible Entity has agreed to pay the Consultant standard commercial rates for the provision of such services.

The Responsible Entity shall reimburse the Consultant for all reasonable traveling and other expenses properly incurred by the Consultant in the performance of its services.

During the term the Consultant shall provide consultancy services to the Responsible Entity in order to assist the Responsible Entity in respect to matters relating to the planting,

establishment and maintenance of the Paulownia trees on the Plantation and to oversee all the silviculture procedures performed by the Responsible Entity and in particular but without limiting the generality of the foregoing:

- supervise the production and provision of the Paulownia planting;
- provide all technical details on the establishment and cultivation of the Paulownia trees;
- advise on the selection and provision of water supply and irrigation systems;
- advise on tree monitoring, watering, plant nutrition and pruning services;
- assist the Sub-Contractor; and
- training relevant staff of the Responsible Entity and the Sub-Contractor in all relevant Paulownia husbandry practices.

The Responsible Entity may terminate the appointment of the Consultant:

- if the Consultant is placed in liquidation or official management,
- if Peaty ceases to be a director of the Consultant or at any time in the reasonable opinion of the Responsible Entity ceases to be involved in the day to day management and running of the Consultant,
- if the Consultant breaches any terms of the agreement and fails to rectify that breach.

Peaty covenants and agrees that during the term of the agreement he will at all times remain a director of the Consultant and be responsible for the day to day management and running of the Consultant.

The Consultant may engage, employ and make available Peaty as the Consultant's representative and all rights granted and obligations imposed upon the Consultant may be enjoyed and performed by Peaty.

The Consultant warrants that it will meet all insurance, superannuation, annual leave, sick leave and other outgoings in relation to Peaty.

11.0 STATUTORY INFORMATION

11.1 Consents

The following expert has given their written consent to the issue of this Product Disclosure Statement with the inclusion of the information detailed below, in the form and context in which that information is included, and have not withdrawn their consent before lodgment of this Product Disclosure Statement with the ASIC:

- Afforestation Pty Ltd and Charles Peaty - Independent Paulownia Consultant's Report, references to that report and statements which rely on the report contained in Sections 1.10, 2.5, 4.4, 4.5, 5.3, 6.2, 7.1 and 10.0.

The following parties have given and not before lodgment of this Product Disclosure Statement with the ASIC withdrawn their written consent to being named in this Product Disclosure Statement in the capacity stated below. For the purposes of the Corporations Law the following parties were only involved in, and have only authorised or caused the issue of, those parts of this Product Disclosure Statement described below and have not authorised or caused the issue of any other part of this Product Disclosure Statement other than that described below. In relation to the Corporate Directory and Sections 6.0 and 11.2 each relevant party has only been involved in the preparation, and authorised or caused the issue of that part to the extent that it refers to that party as follows:

- Geoffrey Coad as an external Compliance Committee member - the Corporate Directory and Section 6.1.3;
- John Lazberger as an external Compliance Committee member - the Corporate Directory and Section 6.1.3;
- Huntleys Custodians Limited as Custodian - the Corporate Directory, Section 6.4, 10.0 and Section 11.2;

- Carlton & Partners as consultants to the Product Disclosure Statement - the Corporate Directory and Section 11.2;
- Moore Stephens as Auditors to the Responsible Entity and the Project - the Corporate Directory;
- Neil Pace - Moore Stephens as auditor to the Compliance Committee - the Corporate Directory;
- Rural Equities Ltd as Lessor - the Corporate Directory and section 11.0;
- Afforestation Pty Ltd and Charles Peaty as Forester and Consultant to the Responsible Entity- the Corporate Directory, Sections 1.10, 2.4, 4.4, 4.5, 5.3, 6.2 and 7.1 and 10.0.

11.2 Interests of Responsible Entity, Lessor or Experts

Other than as set out below and elsewhere in this Product Disclosure Statement, neither the Responsible Entity nor any Director or proposed director of the Responsible Entity or any promoter or expert has any interest now, or which existed in the period of two years before lodgment of this Product Disclosure Statement with the ASIC, in the promotion, or in any property proposed to be acquired for the purposes of the project in connection with its formation or promotion and no Director or proposed director, promoter or expert is a partner in any firm with such an interest. Other than as set out below and elsewhere in this Product Disclosure Statement, no amounts have been paid or have agreed to be paid now or in the last two years (other than the first Paulownia Tree Farming Project and The Paulownia tree Farming Project No.2) to such persons or firm (in cash or otherwise) by any persons to procure subscriptions for, or purchases of, interests in the project or, for services rendered in connection with the promotion or inception of the project or for other services rendered in accordance with the Constitution, or in the case of a Director, proposed director or otherwise for services rendered by him or by any such firm in connection with the promotion or inception of the project or, in the case of an expert, for services rendered by him or any such firm in connection with the promotion or inception of the project.

- the Responsible Entity is entitled to receive the project subscription moneys of \$4,000 (inclusive of GST) per Timberlot which includes the annual management fees payable by each of the Growers set out in this Product Disclosure Statement, as well as being reimbursed for costs and expenses incurred as set out in this Product Disclosure Statement;
- the Responsible Entity may engage any parties associated with or related to the Responsible Entity to assist the Responsible Entity or provide staff, plant, equipment or other resources to the Responsible Entity, to enable the Responsible Entity to carry out its functions and duties under the Constitution or the Lease and Management Agreements in relation to the Constitution and the Project, and the Responsible Entity may reimburse or pay those parties for providing such assistance or resources;
- the directors of the Responsible Entity are entitled to be paid director's fees or other expenses by the Responsible Entity or have an interest in the issued capital of the Responsible Entity and the Directors or their associates are entitled to apply to be allotted Timberlots under this Product Disclosure Statement;
- the Responsible Entity is entitled to be paid a fee of 5% of the Gross Sale Proceeds from the sale of the timber at years 8 and at clearfell during years 12 to 15.
- the directors of the Custodian are entitled to be paid director's fees or other expenses by the Custodian or have an interest in the issued share capital of the Custodian, and the Custodian is entitled to the remuneration set out in this Product Disclosure Statement, as well as being reimbursed for costs and expenses incurred as set out in this Product Disclosure Statement;
- the Lessor will receive rent per Timberlot as the rental payable by the Growers under the Lease and Management Agreements at the annual rentals set out in Section 5.13. The Lessor and the directors or their associates are entitled to apply to be allotted Timberlots under this Product Disclosure Statement;
- Afforestation Pty Ltd is entitled to be paid normal professional fees of \$110 (inclusive of GST) per hour for its services, in preparing the "Independent Paulownia Consultant's Report" and to receive fees for services rendered at the rate of \$110

(inclusive of GST) per annum for the first and second years and thereafter at an hourly rate, to be mutually agreed with the RE from the 1 July 2009;

- Moore Stephens will be entitled to be paid normal fees for their audit of the accounts of the Responsible Entity and the Project and for Neil Pace of Moore Stephens to act as auditor of the Compliance Plan;
- Carlton & Partners any associated parties to Carlton & Partners will be entitled to be paid normal fees for their professional accounting services to the Responsible Entity and will also be paid normal professional fees of \$66,000 (inclusive of GST) for their services as consultants to the Directors and for their advice to the Directors for their preparation of this Product Disclosure Statement. Carlton & Partners any associated parties to Carlton & Partners will be paid fees not exceeding \$100,000 (inclusive of GST) for their services as project co-ordinators for the development and co-ordination of the project for the year ending 30 June 2006. Carlton & Partners, Four Developments Pty Ltd and Graeme Wovodich or their associated parties will also be entitled to receive fees for their services throughout the life of the Project;
- TFIS Total Finance and Investments Solutions (Springscene Pty Ltd) a company of which David Blackwell is Managing Director will be entitled to commissions of no more than 9% and marketing fees of no more than 4% on all subscriptions received for Interests in the Project. TFIS Total Finance and Investment Solutions (Springscene Pty Ltd) will also be entitled to recover any out of pocket expenses or payable for the services of David Blackwell for the Promotion of the Product Disclosure Statement to other Dealers throughout Australia for the year ended 30 June 2006;

11.3 Commission

The Manager may pay up to 9% of the subscription moneys received in respect of applications for Interests under this Product Disclosure Statement, as commission to licensed dealers in securities and proper authority holders who procure applications for Interests in the Project. Also an amount not exceeding 4% of the subscription money may be paid to licensed dealers in securities to compensate them for overhead costs and expenses incurred as a direct result of marketing and the promoting of this Product Disclosure Statement. The amount payable to other licensed dealers in respect of any applications lodged will be the subject of an agreement between the Responsible Entity and the licensed dealer. The Responsible Entity may also pay an amount not exceeding 4% of the subscription money to be payable to any other eligible party, based on the applications received, to compensate them for overhead costs and expenses incurred as a direct result of marketing and promoting of this Product Disclosure Statement.

No amounts have been paid within the two years preceding the date of this Product Disclosure Statement as commissions for subscribing, agreeing to subscribe, procuring or agreeing to procure applications to acquire Interests in Project No.3 but commissions, marketing expenses, and operating expenses have been paid in relation to the first Product Disclosure Statement and the second Product Disclosure Statement being for the first two Paulownia Tree Farming Projects.

11.4 Product Disclosure Statement Costs

The Costs of the Product Disclosure Statement are estimated to be \$200,000 and will be paid by the Directors of the Responsible Entity and the amount of actual expenditure, up to this amount, is to be reimbursed to the Directors by the Responsible Entity when sufficient funds are available.

11.5 Material Agreements

Certified copies of all material agreements and experts consents are available for inspection at the registered office of the Responsible Entity being C/- Fulcher & Associates, 45 Roberts Street Osborne Park WA 6017 during normal business hours.

11.6 Interests of Directors in The Issued Capital of The Responsible Entity

David Peter Blackwell 45%

David Peter Blackwell is the Director of the following;
Paulownia Farm Management Australia Ltd
Goldzone Investments Pty Ltd
Rural Equities Ltd
Springscene Pty Ltd
Ballast Financial Management Pty Ltd

Ballast Financial management Pty Ltd is a FSR Licenced financial planning company, which may receive commissions and fees for marketing this Product Disclosure Statement and Mr Blackwell may be reimbursed for fees for his services.

11.7 No Litigation

There is no litigation pending or threatened which would significantly affect the Project or the Responsible Entity.

11.8 Accounts

The Directors report that, after due enquiry by them in relation to the interval between the date of the Auditors Report on the Company's accounts and the date of the Product Disclosure Statement, they have not become aware of any circumstances that in their opinion have materially affected or will affect the trading or profitability or the value of the assets of the Project or the Responsible Entity.

Signed by the Directors of Paulownia Farm Management Australia Ltd.



David Peter Blackwell
Director - Chairman



William Leslie Fulcher
Director



David Monteleone
Director

Dated the 23 November 2005

12.0 STEPS TO COMPLETE THE APPLICATION FORM

1 Application form

Applicants should complete the application form on pages 60 to 65.

2 Election to Collect Timber

If a Grower does not wish to have the Grower's timber produce sold by the Responsible Entity on behalf of the Grower, then the Grower may complete the election to collect the timber produce on the Application Form.

3 Signing

- **Applicants** should sign the application form on page 64 in the presence of an adult witness who must also sign the Application Form. If the applicant is a company or corporation, the Corporate seal should be affixed in accordance with its articles of association or constitution.
- **Joint applications** must be signed by all applicants. Joint applicants will be deemed to be holding their Timberlot(s) as joint tenants.

4 Payment Required on Application

You must send in a completed application form and a cheque for the total project subscription moneys for each Timberlot(s) as set out below.

The application moneys payable with your application form for the Initial Period (A\$)

Number of Timberlot(s)	Timberlot(s) comprising first years Rent and Management fees
	A\$
1	4,000
2	8,000
3	12,000
4	16,000
5	20,000
6	24,000
7	28,000
8	32,000
9	36,000
10	40,000

5 Lodging your application

Please forward the completed application form, together with a cheque(s) made payable to "Huntley Custodians Limited - Trust Account Paulownia Tree Farming Project 3" and crossed "Not Negotiable", for the application moneys payable in respect of the Timberlot(s) applied for, to your licensed securities dealer or directly to the Responsible Entity:

Paulownia Farm Management Australia Ltd
45 Roberts Street,
OSBORNE PARK, WA 6017

or PO Box 185
OSBORNE PARK WA 6917

Please Note:

Please ensure that you complete the application form on pages 60 to 65; in BLOCK LETTERS and SIGN on Page 64.

13.0 COMPLETING YOUR APPLICATION FORM

SECTION 1 - DETAILS OF APPLICANT(S)

How to Complete Section 1

All Applicants - please complete the name, address and contact details for each Applicant.

Companies or Corporations - if any Applicant is a company or Corporation, you must include its ACN ("Australian Company Number") or ARBN ("Australian Registered Body Number") after its name.

Trusts or Superannuation Funds - if the application is made by a trust or superannuation fund, the application must be made by the Trustee(s) of the trust or superannuation fund in their own name(s), and not in the name of the trust or fund itself.

Australian Business Number ("ABN") - please provide your ABN in the Application Form. If you have any questions on the use of the ABNs please contact your local Tax Office or your advisor.

Tax file number(s) ("TFN") - please complete the details providing each applicant's TFN, or give the appropriate exemption details. Collection of TFNs is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your application but, if you do not quote a TFN or an exemption, taxation may be required to be deducted from any income distribution entitlements, at the higher income tax marginal rate plus Medicare levy (currently 48.5%). If you have any questions on the use of TFNs or available exemptions please contact your local Australian Tax Office.

Country of Residence, for tax purposes - if any Applicant is not a resident of Australia for taxation purposes, please provide details of their country of residence. Please note that withholding tax or other tax payments may be required to be deducted from distributions of income or other payments in the case of non-residents. Non-residents are advised to seek their own taxation advice before investing.

SECTION 2 - TIMBERLOT(S) APPLIED FOR;

Please complete the number of Timberlot(s) applied for, and the application moneys enclosed with your application (see the table of application moneys payable with your application, on page 57.)

SECTION 3 - ELECTION TO INSURE,

If you wish to insure the trees on your Timberlot(s) against damage or destruction by fire, please tick the appropriate box.

The Responsible Entity will then endeavor, subject to the availability of suitable insurance, to arrange insurance for all Growers who have elected to insure their trees subject there being a request for insurance by more than 50% of the Growers in this Project. Upon receipt of the premiums applicable to insurance each year the Responsible Entity will notify the insurer of the number requiring insurance and request that insurance cover be applied for those Growers. The Responsible Entity will continue to advise all Growers electing to insure their trees of the availability of suitable insurance and the amount of the insurance premium payable each year throughout the course of the project.

SECTION 4 - ELECTION TO COLLECT TIMBER PRODUCE

If you intend to collect your timber produce on completion of harvesting, please tick the appropriate box. You may make your election at any time prior to 30 June 2008 by notice in writing to the Responsible Entity, and the Responsible Entity will give you reasonable notice before commencing any harvesting on your Timberlot(s).

If you do not elect to collect your timber produce, the Responsible Entity will pool your produce with the produce of other non-electing Growers, sell it under the terms and conditions of any Timber Sales Agreement, and the Custodian will account to you for your share of Net Proceeds.

SECTION 5 - POWER OF ATTORNEY

By signing the application form you appoint the Responsible Entity as your attorney to execute and complete a Lease and Management Agreement on your behalf.

SECTION 6 - SIGNING THE APPLICATION FORM

Your application form must be signed by each Applicant named in Section 1 of the Application Form. Companies or corporations must execute the Application Form under their common seal, in accordance with their articles of association or constitution.

APPLICATION FORM – PAGE 1

PAULOWNIA TREE FARMING PROJECT

Important: Before signing this Application Form, applicants should read the Product Disclosure Statement to which the Application Form relates. This Application Form must not be issued, circulated or distributed unless attached to the Product Disclosure Statement.

APPLICANTS MUST COMPLETE AND LODGE THIS FORM COMPRISING 6 PAGES WITH THE RESPONSIBLE ENTITY

Paulownia Farm Management Australia Ltd
45 Roberts Road
Osborne Park WA 6017
OR
PO Box 185
Osborne Park WA, 6917

Advisor/Dealer's Stamp

PLEASE USE BLOCK LETTERS WHEN COMPLETING THIS FORM

SECTION 1 - DETAILS OF APPLICANT(S)

Section 1 - Person(s) to be registered as Grower(s), on the Timberlot(s) applied for.

INDIVIDUAL/JOINT APPLICATION

Dr/Mr/Mrs/Ms

.....
(USE BLOCK LETTERS) First Name(s) Surname

Dr/Mr/Mrs/Ms

.....
(USE BLOCK LETTERS) First Name(s) Surname

All joint applicants will be registered as joint tenants, not as tenants in common

COMPANY OR CORPORATION

Name.....
ACN/ARBN.....
Contact Person.....

ADDRESS FOR CORRESPONDENCE & TELEPHONE NUMBERS

Address

City/Town/Suburb Postcode
Telephone Nos Business Facsimile Email

TAX FILE NUMBER(S)OR EXEMPTION(S)& COUNTRY OF RESIDENCE FOR TAX PURPOSES

I/We wish to quote:
TAX FILE NUMBER or EXEMPTION
I do/do not wish to quote a Tax File Number / Exemption
Country of residence, for tax purposes

APPLICATION FORM – PAGE 2

SECTION 2 - TIMBERLOT(S) APPLIED FOR

THE AMOUNT OF EACH TIMBERLOT APLIED FOR IS \$4,000.00*
THE NUMBER OF TIMBERLOT(S) APPLIED FOR IS: _____
THE TOTAL APPLICATION MONIES ENCLOSED
WITH THIS APPLICATION IS \$_____

All cheques must be made payable to "Huntley Custodians Limited - Trust Account Paulownia Tree Farming Project No 3." and crossed "Not Negotiable".
Application moneys must be paid in full upon application.

SECTION 3 - ELECTION TO INSURE, ELECTION TO COLLECT TIMBER PRODUCE

(SUBJECT TO THE AMOUNT OF THE PREMIUMS PAYABLE & THE AVAILABILITY OF A SUITABLE INSURANCE POLICY)

I/WE WOULD LIKE TO INSURE the trees and produce on my/our Timberlot(s) and request that the Responsible Entity acts on our behalf to provide an insurer for the purpose of insuring the trees. YES/NO

I/WE ELECT to collect our share of timber produce from my/our Timberlot(s) on the plantation. YES/NO

SECTION 4 - APPOINTMENT OF ATTORNEY

By signing the Application Form you appoint the Responsible Entity as your attorney to sign the Lease and Management Agreement on your behalf.

4.1 APPOINTMENT OF ATTORNEY

In consideration of the issue of an Interest in the Paulownia Tree Farming Project No.3, the Applicant hereby appoints Paulownia Farm Management Australia Ltd, of 45 Roberts Street Osborne Park WA 6017 (the "Attorney") as the attorney of the Applicant.

4.2 POWERS OF THE ATTORNEY

The Applicant hereby grants the Attorney the following powers:

Execution of Lease and Management Agreement

To execute, date and complete any blanks in a Lease and Management Agreement (and any duplicate) for the number of Timberlot(s) the Applicant has applied for, in respect of which the Attorney has accepted the Applicant's application.

Variation of Lease and Management Agreement

To amend any provision of the Lease and Management Agreement on the Applicant's behalf in accordance with the prior written approval of the Applicant PROVIDED that if such an amendment will adversely affect the rights of other Growers, it must be approved by a resolution of Growers at a meeting of Growers, duly convened and held AND the Attorney may initial any amendment to the Lease and Management Agreement made under this paragraph and execute any document which affects or evidences the amendment.

Caveats and Registration

To do anything which in the opinion of the Attorney is necessary, expedient or desirable:

- (a) if the Attorney is requested to do so by the Grower in writing - to lodge a caveat under the Transfer of Land Act claiming an interest (or relating to the Applicant's Interest) in the Applicant's Timberlot(s), or to register the Applicant's Lease and Management Agreement under that Act, as a lease; or

APPLICATION FORM – PAGE 3

(b) at the completion of the Project or on any prior termination of the Applicant's Lease and Management Agreement- to discharge any caveat or deregister any lease lodged or registered under the Transfer of Land Act in respect of the Applicant's Lease and Management Agreement and the Attorney may instruct its solicitor to do those acts for it and deduct the reasonable costs of doing so

(including all fees payable to the Department of Land Administration) from the proceeds of sale of the Applicant's collectable produce.

4.3 BENEFIT OF ATTORNEY

The Attorney may exercise the powers conferred on it under this Deed, notwithstanding any benefits that the Attorney may be entitled to as a result of the exercise of those powers.

4.4 RATIFICATION AND INDEMNITY

The Applicant undertakes to ratify and confirm any act of the Attorney in exercise of its powers under this Deed and agrees to indemnify the Attorney against all claims, demands, costs, damages, losses and expenses however suffered or incurred by the Attorney in respect of or as a result of the exercise of any of its powers under this Deed.

4.5 REVOCATION

This power of attorney remains in full force and effect until notice of the death of the Applicant or the revocation of the power of attorney is received by the Attorney.

4.6 DEFINITIONS AND INTERPRETATIONS

Terms used in this Deed have the same meaning as the meaning given to those terms in the Constitution for the Paulownia Tree Farming Project.No.3. Where there is more than one Applicant specified in the relevant Application, a reference to the Applicant in this power of attorney is a reference to each of them severally and all of them jointly.

This Power of Attorney is deemed to be executed as a deed by execution of the Application Form of which this instrument forms part.

SECTION 5 - SIGNING THE APPLICATION FORM

I/We hereby acknowledge and agree:

That I/we have read the Product Disclosure Statement to which this Application Form relates.

That I/we have sought appropriate financial planning advice before signing this Application Form, and have received advice from a Tax Agent or Investment Adviser as to whether I am a person/we are persons to whom a deduction under Section 8-1 of the Income Tax Assessment Act 1997 is applicable and can be utilised by me/us in relation to any of the application moneys payable on making this Application.

That I/we have inspected or am/are aware of and agree to be bound by the terms of the Constitution described in Section 11 (Summary of Material Agreements).

That the Responsible Entity does not guarantee the success of the Project, the repayment of capital invested or any particular rate of capital or income return from the capital invested.

That an Interest in the Project, or in the Timberlot(s) that may be issued to me/us under the Lease and Management Agreement and the terms of the Product Disclosure Statement to which this Application relates is considered to be speculative.

APPLICATION FORM – PAGE 4

(If signed under Power of Attorney): The Attorney states that no notice of revocation of the Power of Attorney under which this Application Form is signed has been received.

I/we hereby apply for Interest(s) in the Paulownia Tree Farming Project No.3 in accordance with this Application, and hereby acknowledge and agree:

That the Responsible Entity has the right to accept or reject this Application for Interest(s) in the Project, in whole or in part

That acceptance of this Application for Interest(s) in the Project will be constituted by execution of the Lease and Management Agreement in relation to one or more Timberlot(s) by the Responsible Entity on my/our behalf, without communication of acceptance to me/us.

To be bound by the Lease and Management Agreement entered into by me/us. To pay annual contributions in respect of the Timberlot(s) in accordance with the Lease and Management Agreement entered into by me/us and the terms of the Product Disclosure Statement to which this Application relates.

That the Custodian is to pay my/our share of the subscription moneys to the Lessor and the Responsible Entity, after the acceptance of this Application in accordance with the Constitution.

APPLICATION FORM – PAGE 5

SECTION 5 CONTINUED;

NOTE: THIS PAGE MUST BE COMPLETED AND EXECUTED BY ALL APPLICANTS

EXECUTION

By my/our execution hereof I/we:

A) APPLY FOR TIMBERLOT(S) IN THE PROJECT No.3.

B) APPOINT THE RESPONSIBLE ENTITY AS MY/OUR ATTORNEY TO EXECUTE THE LEASE AND MANAGEMENT AGREEMENT

Date: _____ 2005/2006.

INDIVIDUALS / JOINT APPLICANTS PLEASE SIGN HERE

Signed: **Applicant**

Print full name of signatory

Signed: **Witness**

Print full name of signatory

Signed: **Applicant**

Print full name of signatory

Signed: **Witness**

Print full name of signatory

CORPORATIONS: PLEASE COMPLETE COMPANY DETAILS AFFIX SEAL AND SIGN

THE COMMON SEAL of)
.....)
.....)
.....)
(ACN/ARBN _____)
was affixed pursuant to its)
Articles of Association in)
The presence of:)

Signed:

Director

Print full name of signatory

Director/Secretary

Print full name of signatory

The Applicant ___ is ___ is not a single directorship corporation (**please tick one**).

NOTE: This page must be completed and executed by all Applicants.

APPLICATION FORM – PAGE 6
APPLICATION FORM - PAYMENT OPTIONS
PLEASE TICK ONE AND FILL IN THE DETAILS

1. **CHEQUE OR MONEY ORDER**

MAKE CHEQUES PAYABLE TO HUNTLEY CUSTODIANS LIMITED-
TRUST ACCOUNT – PAULOWNIA TREE FARMING PROJECT 3

2. **CREDIT CARD**

CREDIT CARD NUMBER

_ _ _ _	_ _ _ _	_ _ _ _	_ _ _ _
---------	---------	---------	---------

EXPIRY DATE

_	_
---	---

_	_
---	---

NAME ON CREDIT CARD

--

CREDIT CARD TYPE

BANK CARD

MARSTER CARD

VISA

SIGNATURE

--

3. **BANK TRANSFER**

NAME OF BANK:

COMMONWEALTH BANK OF AUSTRALIA

ADDRESS:

VICTORIA PARK WA 6100

NAME OF ACCOUNT

Huntley Custodians Limited - Trust Account - Paulownia Tree Farming Project 3
--

NATIONAL AUSTRALIA BANK

BSB NUMBER

ACCOUNT NUMBER

0	8	2	0	8	8
---	---	---	---	---	---

5	9	3	6	4	8	8	0	5
---	---	---	---	---	---	---	---	---

IMPORTANT: ENTER YOUR DETAILS OF THE PAYER ON THE ELECTRONIC TRANSFER FOR IDENTIFICATION PURPOSES

DESCRIPTION OF IDENTIFICATION USED BY YOU:

--

GLOSSARY

"Applicant" - means a person who has lodged an Application with the Responsible Entity.

"Application Form" - means the Application Form attached to this Product Disclosure Statement, relating to the Project No.3.

"Application Monies" - means the issue price paid by the investor for the Initial Period and paid initially to the Custodian

"ASIC" - means the Australian Securities and Investments Commission.

"Auditor" - means the auditor of the Company appointed under the Corporations and Securities Legislation.

"Business Day" - means a weekday when trading banks are open for business in Perth Western Australia.

"Constitution" - means the Constitution of the Project No.3 dated 18th July 2005.

"Corporations Act " - means the Corporations Act 2001 (Cth)

"Custodian" - means Huntley Custodians Ltd. (ACN 082 237 241) of level 3, 37 Bligh Street Sydney NSW 2000.

"Directors" - means the directors of the Responsible Entity.

"Financial year" - the period of 12 months ending on the 30th day of June in each year.

"Forestry Expert and Consultant to the Responsible Entity" - means Afforestation Pty Ltd (ACN 008 733 926) of 33c Fremantle Village, 1 Cockburne Road South Fremantle WA 6162.

"Grower" - means a person who owns an Interest in the Project No.3 by entering into a Lease and Management Agreement in relation to one or more Timberlot(s).

"GST" - means Goods and Services Tax or similar value added tax.

"Interest" - means a Grower's Interest in the Project No.3 represented by a Lease and Management Agreement in relation to one Timberlot.

"Initial Period" – means, for the **management fee**, the period from the 1st July 2006 to 31st December 2006

"Initial Period" – means, for the **rental fee**, the period from the 1st July 2006 to 30th June 2007

"IRR" - means internal rate of return

"Lease and Management Agreement" - means the agreement pursuant to which a Grower obtains a sub-lease of any number of Timberlots from the Lessor and appoints the Responsible Entity to manage the Grower's Paulownia plantation.

"Lessor" - means Rural Equities Ltd. (ACN 109 158 376) of 45 Roberts Street Osborne Park WA 6017.

"Managed Investments Scheme" - means a Scheme under the provisions of Chapter 5C of the Corporations Law and any regulations made for the purpose of that Chapter.

"Managed Investment Act" - means an investment scheme that is regulated by the Managed Investments Act.

"Management Agreement" - means that part of the Lease and Management Agreement pursuant to which a Grower appoints the Responsible Entity as manager of the Grower's one or more Timberlots.

"Plantation" - means the crop of Paulownia trees established or to be established on the Project Land.

"Plantation Sub-Contractor" - means Goldzone Investments Pty Ltd. (ACN 104 677 607) of 45 Roberts Street Osborne Park WA 6017.

"Product Ruling" - means a ruling given by the Australian Taxation Office in relation to the tax deductibility of the expenses incurred by an investor and the operations of a particular Scheme or Project

"Project" - means the managed investment scheme known as the Paulownia Tree Farming Project No.3 (ARSN 115 342 713) established by the Constitution for Project 3

"Project Land" - means the land, located 21 kilometres northwest of Moora being Lot 11 and 12 of diagram 96540 Certificate of Title Volume 1671 Folio 025.

"Product Disclosure Statement" - means this Product Disclosure Statement.

"Responsible Entity" - means Paulownia Farm Management Australia Ltd. (ACN 085 628 388) of 45 Roberts Street Osborne Park WA 6017.

"Round log form" - means timber felled and not milled.

"Rough sawn timber" - means milled timber into assorted boards.

"Lease" - means that part of the Lease and Management Agreement pursuant to which a Grower leases or sub-leases one or more Timberlot(s) from the Lessor.

"Timberlot" - means that specified part of the Project Land comprising 0.10 hectares identified individually by a number, to be leased by a Grower pursuant to a Lease and Management Agreement.

CORPORATE DIRECTORY

RESPONSIBLE ENTITY

Paulownia Farm Management Australia Ltd

(ACN 085 628 388)

45 Roberts Street

OSBORNE PARK WA 6000

Telephone: (08) 9201 8888

Facsimile: (08) 9201 8899

Email address: manager@paulowniafarm.com.au

Web Site: www.paulowniamanagement.com.au

DIRECTORS OF THE RESPONSIBLE ENTITY

David Peter Blackwell - Director (Chairman)

David Monteleone - Director

William Leslie Fulcher- Director

COMPLIANCE COMMITTEE

David Monteleone - Company Representative

Geoffrey Coad - Independent Member

John Lazberger - Independent Member

CONSULTANTS TO THE PRODUCT DISCLOSURE STATEMENT

Carlton & Partners

First Floor, 295A Lord Street

PERTH WA 6000

Telephone: (08) 9228 0722

LESSOR

Rural Equities Ltd

(ACN 109 158 376)

45 Roberts Street

OSBORNE PARK WA 6000

Telephone: (08) 9201 8888

THE CUSTODIAN

Huntley Custodians Limited

(ACN 082 237 241)

Level 3, 37 Bligh Street

SYDNEY NSW 2000

Telephone: (02) 9233 5444

AUDITORS OF THE RESPONSIBLE ENTITY AND THE PROJECT

Moore Stephens

Level 3, 12 Georges Tce

PERTH WA 6000

Telephone: (08) 9322 2244

FORESTER AND CONSULTANT TO THE RESPONSIBLE ENTITY

Afforestation Pty Ltd

(ACN 008 733 926)

33c Fremantle Village

1 Cockburne Road

SOUTH FREMANTLE WA 6162

Telephone: (08) 9433 4442

AUDITOR OF THE COMPLIANCE PLAN

Neil Pace - (Moore Stephens)

Level 3, 12 St Georges Tce

PERTH WA 6000

Telephone: (08) 9322 2244