



Willmott Forests Limited  
Annual Report 2004

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# CORPORATE DIRECTORY

**Willmott Forests Limited**

ABN 17 063 263 650

**Registered Office**

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South Melbourne Victoria 3205

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**Directors**

James William Antony Higgins (Chairman)

Marcus Derham (Chief Executive Officer)

Jonathan David Madgwick

Hugh Thomas Davies

**Company Secretary**

Jonathan David Madgwick

**Share Registry**

Computershare Investor Services Pty Limited  
Yarra Falls

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Abbotsford Victoria 3067

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**Solicitors**

Mallesons Stephen Jaques

Level 28

Rialto 525 Collins Street

Melbourne Victoria 3000

**Auditors**

Armstrong Partners

Chartered Accountants

Level 5

150 Albert Road

South Melbourne Victoria 3205

**Bankers**

Commonwealth Bank of Australia

Institutional Banking

Level 13, 385 Bourke Street

Melbourne Victoria 3000

**Notice of Annual General Meeting**

The Annual General Meeting of Willmott Forests Limited will be held in the Board Room of Willmott Forests Limited at 249 Park Street, South Melbourne Victoria 3205.

Notice of date and time under separate cover.

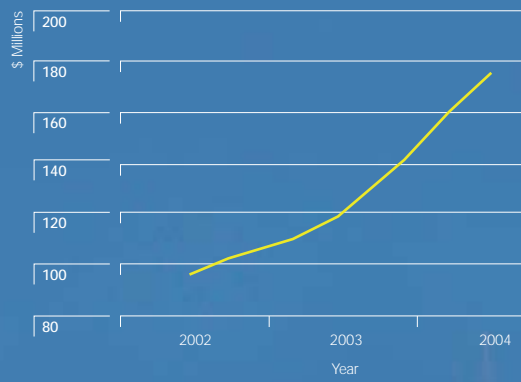
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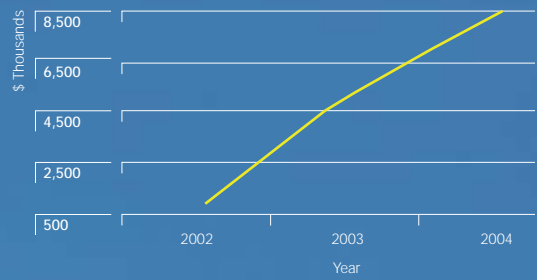
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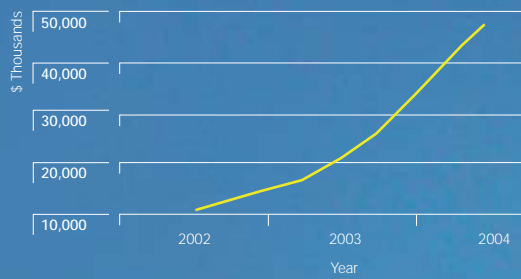
Total Current Assets



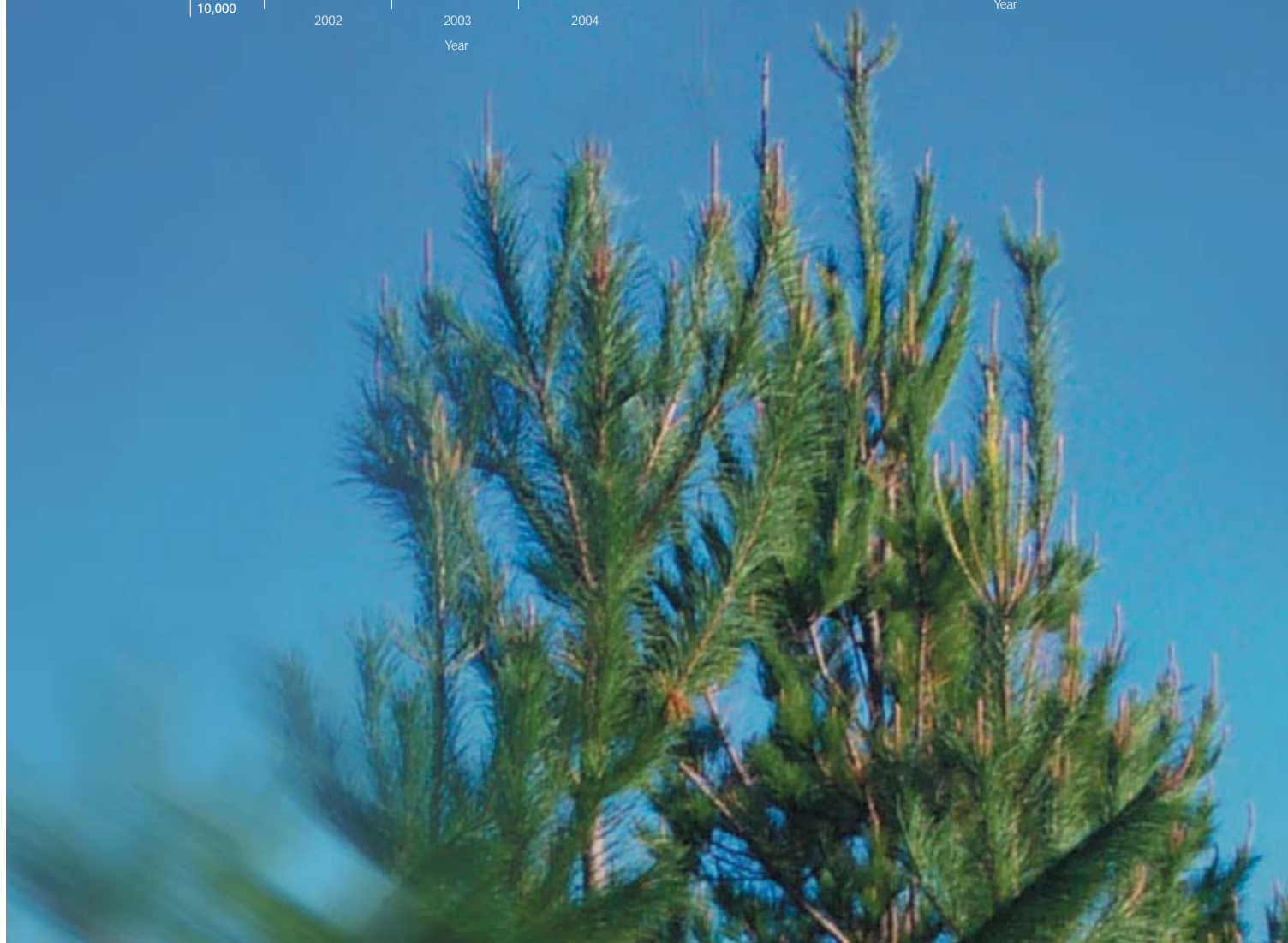
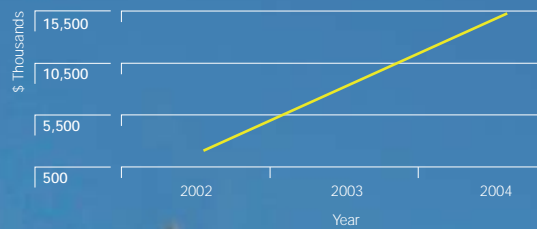
NPAT



Total Revenue



EBITDA



## World demand

As world demand for forest products is increasing, supply is becoming more restricted. Global market assessments point to faster growth in the demand for wood relative to supply over the next 25 years.

## Alternative to native forests

Global forest resources have declined sharply due to a growing world population and the subsequent demand for forest products and this therefore impacts on supply.

Australia has the potential to have a secure, economically efficient and ecologically sustainable timber industry based almost entirely on plantations in the future. The competitive advantage of plantations is increasing as the cost of native forest operations continues to rise relative to the cost of producing wood from plantations.

In this context plantations are a sustainable and viable alternative to harvesting Australia's native forests.

## Government support

Industry policy settings such as The National Forest Policy Statement (1992), the Wood and Paper Industry Strategy (1995) and the Plantations for Australia: The 2020 Vision (1997 and the 2002 revision), collectively provide a sound platform for expanding Australia's plantation based forest industry.

## Environmental benefits

Sequestering carbon through expanded commercially driven plantation forestry activity will be a central aspect of Australia's response to its international

obligations to combat global warming. The role of plantations in acting as 'sinks' for the storage of carbon is now recognised as a key tool in the overall strategy to reduce atmospheric carbon levels.

In addition to this, increasingly it is being recognised that the solution to major environmental problems such as land and water salinisation will depend to a significant degree on our ability to collate, coordinate and implement our science with strategies that make profits at the same time as restoring the environment.

The establishment of commercial plantations or tree crops on farms is one strategy that can restore the hydrological balance and result in profitable return on the investment.

*(Dr Syd Shea, Commercial Forest Plantations on Saline Lands, Lambert and Turner CSIRO 2000).*

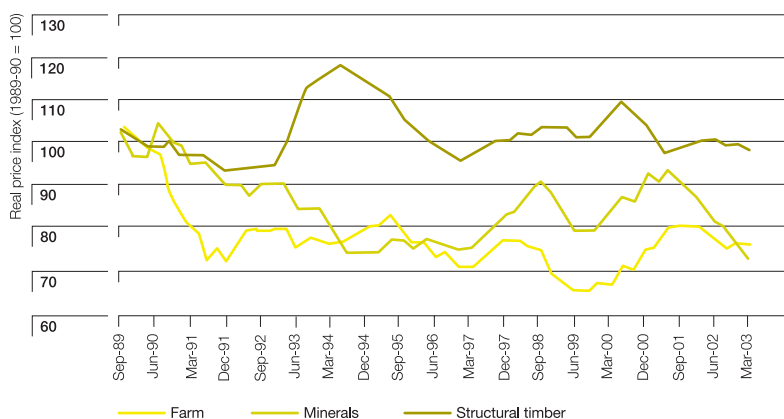
## Established timber markets

Commodity timber markets are increasingly supplied by plantation wood, which now accounts for approximately 70% of domestic sawn timber markets.

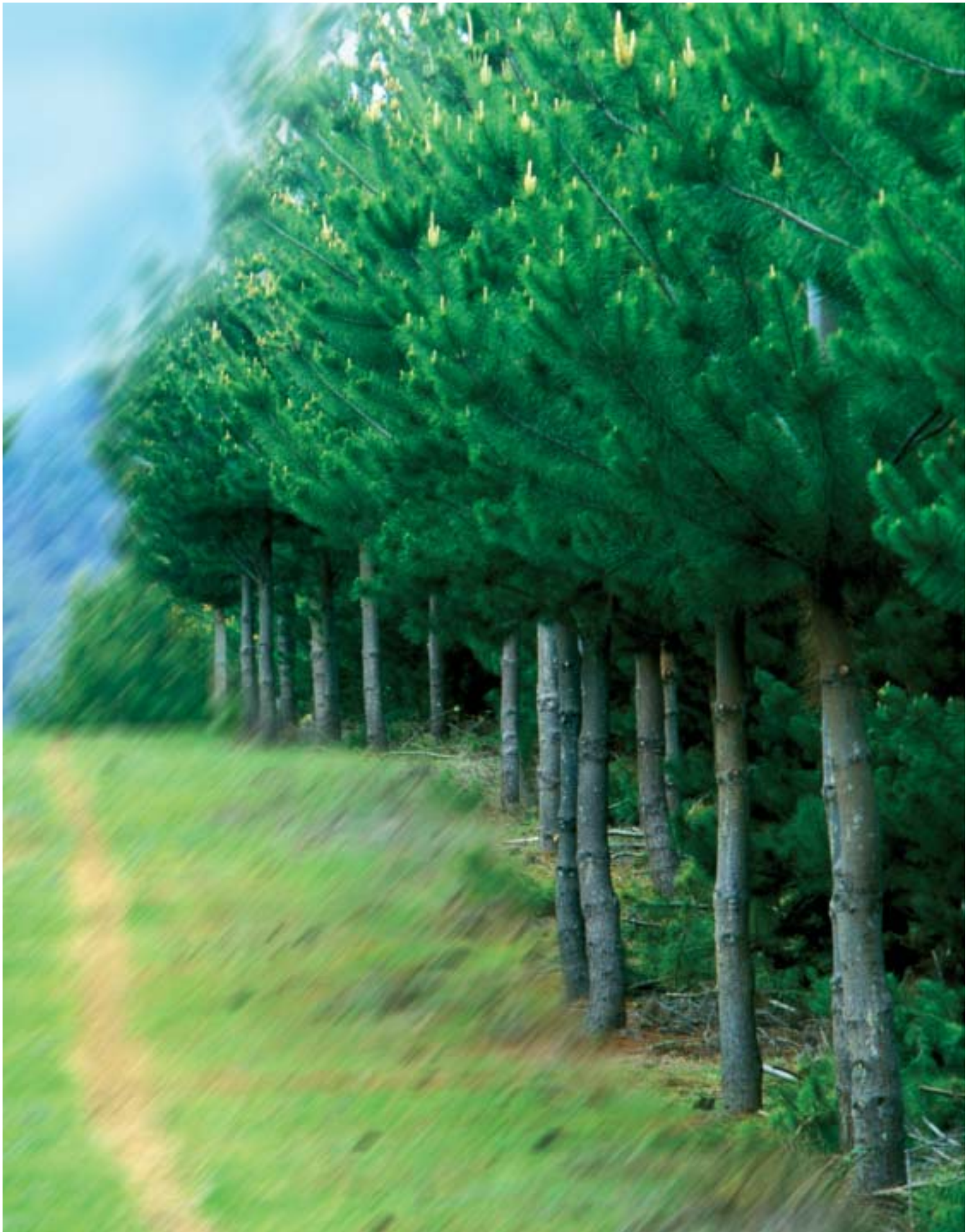
Australia's forest plantations now exceed 1.5 million hectares. Commercial softwood plantations account for approximately 980,000 hectares, with the balance being hardwood plantations.

The Forest Products Industry forms a significant part of the Australian manufacturing sector. In 2001-2002, the forestry industry employed approximately 78,600 people. The expansion in the plantation sector has provided substantial support for these employment numbers and their contribution to regional economies.

Prices for Forest Products Compared to Other Commodities



Source: Australian Bureau of Statistics (ABS), URS Forestry, August 2003.



## CHAIRMAN'S MESSAGE



As it is almost five years since Willmott Forests Limited listed on the ASX, this seems a good time to review the broader picture in which the Company operates today, from both the Australian and world perspectives.

As world demand for forest products is increasing, supply is becoming more restricted. Global market assessments point to faster growth in the demand for wood relative to supply over the next 25 years. At the same time, the world's natural forest area is declining, and as a result, man-made plantations are being called on to play a greater role in the supply of industrial wood to the world.

Closer to home, we can see that a viable alternative to harvesting Australia's native forests is the supply of timber from plantations. Commodity timber markets are increasingly supplied by plantation wood, which now accounts for approximately 70% of domestic sawn timber markets. Thus, softwood continues to replace hardwood in these markets, most importantly in house-framing and other construction activities.

In this age of sensitivity to global warming and the emission of greenhouse gases, there is a growing awareness of the long-term benefits of renewable resources such as timber plantations and their potential as carbon sinks. This continues to be underscored by the objective of the Commonwealth Government of having three million hectares of land in Australia under plantation forests by the year 2020.

The position of Willmott Forests in this scene is that of the largest softwood plantation developer in Australia, with plans to continue in this leading position. In recent years, Willmott Forests has been responsible for approximately 74% of newly established softwood plantations in New South Wales and 15% Australia-wide. The Company has also extended its holdings of plantable land from the Bombala region, and recently has started to acquire suitable land in the Murray Valley region, an area which boasts a healthy and established softwood timber processing market.

This strategic move will see annual plantation development in both the Bombala and Murray Valley regions from FY2005 onwards and help facilitate Willmott Forests planned growth to become a major forest products company in Australia.

Willmott Forests continues to be committed to the *Pinus radiata* (softwood) species and to resist diversifying into other species of timber or horticulture. The Company intends to continue with its policy of maintaining its position as a market leader in the proven and recognisable softwood plantation industry over the long-term, while at the same time fostering a reliable market for its sawlogs by acquiring and developing its own sawmills and softwood treatment plant.

This vertical integration also gives the Company potential for deriving future profits from processing softwood for the building and landscape industries, which can act as a buffer against any future fluctuations of income from the forestry operations. The Board of Willmott Forests believes that the Company has a number of opportunities for continued solid growth.

The markets for investments in agribusiness, and in plantation timber in particular, have again grown strongly. Forestry is rapidly gaining acceptance in Australia as an alternative asset class. This renewed interest in alternative assets as an investment augurs well for the future of the industry.

The year 2003-2004 has been a pleasing one for Willmott Forests. The Company has produced another record profit, based on an 85% increase in sales of Woodlots and therefore can support an overall dividend payout of four cents per share, including the final dividend to be paid in September 2004, which is an increase on the previous year. Also I note that this dividend is payable on a substantially increased capital base of \$39.0 million compared to \$27.6 million last year.

A handwritten signature in black ink that reads "James Higgins". The signature is written in a cursive, flowing style.

James Higgins  
Chairman

# CHIEF EXECUTIVE'S REPORT



This year has been a good one for all involved with Willmott Forests with a significant increase in our market capitalisation, driven predominantly by strong growth in our share price.

The Company plants, manages, harvests, processes and supplies softwood timber products to the Australian market. The challenge now is to continue to grow our business and improve our delivery systems in all key areas.

Our business employs both directly and indirectly a large number of people in Bombala and surrounding regional areas. Staff levels now run at 150 people (with 125 people in forestry and timber processing).

I would like to take this opportunity to commend all our people for their commitment and contribution to the growth of Willmott Forests as we look to the future and the next stage of our development.

## Review of operations

### Corporate activities

Willmott Forests' financial performance in FY2004 has been pleasing with healthy results posted in all areas.

Assets are now in excess of \$175 million (an increase of 48%), net profit after tax grew by 54% to \$8.4 million and EBITDA at \$15.4 million has risen by 74% in comparison to the previous year.

Much has been said about our strong Woodlot sales result, however, it is also important to note that our Total Revenue increased by 127% to \$45.3 million, of this our timber processing operations contributed one-third. This represents the first step in our strategy of providing a diversified income stream to shareholders with a reduced reliance on managed investment activities.

Willmott Forests' quality management system is certified under AS/NZS ISO 9001 and covers all processes and aspects of our business excluding the timber processing activities, although work is underway to check the alignment of our timber processing systems with critical aspects of the ISO 9001 standard. Audit activity has continued to be conducted throughout the year ensuring high compliance standards are maintained.

From an Occupational Health and Safety (OH&S) perspective, the Company and all its people remain committed to ensuring the highest standards of health and safety for the entire workforce and a

continuous improvement in working conditions. We commend our staff and the members of the OH&S committee on their efforts that have ensured safe practices were employed in all operations throughout the year.

Willmott Forests takes into account environmental, social and ethical considerations as it conducts its business. The Company is committed to maintaining responsible environmental management practices and sustainable resource management.

Willmott Forests adopts best practices in all plantation activities with a view to ensuring conformance with relevant Acts. The Company's operations include a wide range of environmental activities in regard to control of salinity, erosion and applications of herbicides and fertilisers. Our environmental management policies operate in concert with our Timber Plantations Practices Code and Plantation Establishment Plans. Timber processing and treatment activities are conducted in accordance with EPA guidelines.

Early in FY2004 the Company completed the acquisition of the Prime Pine softwood processing operation on an earnings multiple of 4.8 times. This is now known as our Landscape Products Plant.

In September 2003 the Company announced a placement of 6,350,000 fully paid ordinary shares to institutional and professional investors at \$1.37 per share. The placement was later ratified at the Annual General meeting in October 2003.

Late in FY2004 we welcomed James Hochroth, a seasoned senior executive with 20 years experience in forest products, to the senior executive team. James is responsible for overseeing our timber processing operations.

Willmott Forests has, for some time, been considering creating a second sphere of forest management that will compliment what we have created in the Bombala region.

After detailed review and investigation across all softwood growing regions in Australia your Board has approved the Company's geographical expansion into the Murray Valley region which spans from Wangaratta in North East Victoria to Tumut on the South West slopes of New South Wales. The region consists of 170,000 hectares of established softwood plantations and boasts a vibrant and well established softwood processing industry.

### Managed investment activities

Willmott Forests is responsible for 74% of all softwood plantation development in New South Wales and 15% nationally in recent years.

The company developed and marketed two complying offer documents in FY2004. Both were well supported by our Dealer Network.

Our 2004 retail Woodlot Product Disclosure Statement under the Willmott Forests Project was highly rated by two independent research houses (Adviser Edge and Australian Agribusiness Group), delivering increased sales. The Willmott Forests Professional Investor – 2004 Project was also well received and supported providing a sound and attractive alternative for larger investors.

The Woodlot sales result in FY2004 was a pleasing one for the Company. We have maintained market share and our Dealer Network, now with National representation, delivered higher sales across a far broader base.

Woodlot sales revenue reached \$35.7 million in FY2004. Of this revenue, \$5.4 million has been recognised as income in FY2004 and the balance of \$30.3 million has been carried forward to FY2005.

### Timber processing activities

The company operates two timber processing operations in Bombala and our focus at both these plants is on landscape and structural timber for the Australian market.

This first year of operation as a vertically integrated company has presented many challenges, especially in our Bright Street sawmill, where old plant and equipment needed to be upgraded, new staff needed to be hired and many regulatory issues required attention. Most of the hard work has been done and we are now ready to sustainably increase production, investment and employment. The sawmill is now crewed for full production on a single shift, which aims to improve grade recovery, that is, produce a greater proportion of higher value products.

Our landscape products plant (formerly Prime Pine) at Sandy Lane is involved in the three primary facets of timber milling; processing, refinement and treatment. This business was built up over 20 years by Sam Baker who continues to work closely with

Willmott Forests. It is our intention to grow this business further. Already a market leader in supplying treated timber for landscaping applications in New South Wales and the ACT, Willmott Forests plans to expand the sales network further into Victoria, enhance customer relationships and widen the product range. Major initiatives for the year ahead include a trebling of treatment capacity and the addition of a second kiln to increase drying capacity. These improvements are expected to be operational late in the second half of 2005.

It is planned to increase the capacity of our timber processing operations in concert with the expanding softwood plantation resource in the region. At present these mills receive their wood supply from State Forests of NSW, however, it is planned to commence processing wood from Willmott Forests' plantation estate later this financial year in concert with an export operation out of the multi-purpose wharf facility at Eden NSW.

### Forestry operations activities

All in-field commitments continue to be completed on time and in accordance with our Product Rulings.

All ongoing maintenance works have been carried out as per our scheduled works programs.

Drought has affected much of rural Australia and rainfall averages have been down by as much as 45% when matched with historical data. Such a decline in rainfall will restrict growth across plantation estates. Although the drought has impacted upon the Bombala region we have not experienced the harsher conditions felt in much of the rest of Australia. Willmott Forests' strict land selection criteria continues to hold the Company in good stead in relative terms.

Although last fire season came and went without incident we remember the bushfires of January 2003 all too well. The company has maintained its status as a registered Forestry Industry Brigade of the Country Fire Authority (CFA) within Victoria and has substantially increased its in-house fire fighting capacity in the last 12 months. The company also enjoys a cross-border agreement with State Forests of NSW which provides a greatly increased fire fighting resource for either organisation should it be required. The company's links with both the CFA in Victoria and the RFS (Rural Fire Service) in New South Wales are stronger than ever before.

Willmott Forests' Forestry Cadet Training Program, a regional employment initiative of which we are very proud, continues to provide in-field benefits to both the Company and it's people. This program is targeted at providing training and employment opportunities to young people in the Bombala region. With the FY2004 intake of a further 10 cadets, the program has to date resulted in 30 full-time cadet positions being created since the year 2000.

The Forestry Cadet Training Program is now further enhanced by Willmott Forests' involvement in a school based industry initiative that is designed to better prepare secondary school students for life in the local work force. To date this has been extremely well received by the local school community.

Our ongoing commitment to education is marked by the Willmott Forests Award for Academic Excellence in the Advanced Diploma of Forestry (Melbourne University – Creswick Campus) which is designed to encourage and reward industry based students in their endeavours. The company is also a Patron of the Joseph Gottstein Memorial Trust. The Gottstein Trust is the National Education Trust of the Australian Forest Industries which provides financial assistance for successful applicants in many areas within the forest products industry and helps them advance in their professional fields.

#### Outlook/future developments

In our view, nothing has changed – the growing need for sustainable timber resource both domestically and internationally confirms our belief that the longer-term outlook for the plantation forest industry is positive.

Willmott Forests is growing strategically and aims to deliver sound shareholder returns through a diversified earnings stream that does not depart from our core business.

Whilst we do not believe in growth for growth's sake we recognise that there are opportunities that our shareholders can benefit from and we aim to position the Company to take advantage of growth opportunities as they arise.

The managed investment side of our business has experienced robust sales growth in last few years and we are confident that we can continue to deliver solid shareholder returns from this arena in the foreseeable future.

Our softwood timber processing operations have made a positive contribution to cash flow and we are preparing to grow this part of our business. A strategic action plan has been developed to achieve this over the next five years.

We are on track to continue to achieve 'double-digit' growth in profits by offering a suite of effective softwood forestry investment products that will deliver us an expanding plantation resource in order to produce a diverse range of quality softwood timber products and finished goods to the Australian market.



Marcus Derham  
Chief Executive Officer



## COMPANY OVERVIEW

**Willmott Forests is a quality focused, vertically integrated company that plants, manages, harvests, processes, supplies and replants softwood resource for a commercial benefit in a sustainable manner.**

### Introduction

Willmott Forests is a publicly listed (ASX Code: WFL), quality endorsed, fully integrated forestry company producing a wide range of landscape and structural timber products from its softwood processing operations in Bombala, south eastern New South Wales.

Willmott Forests is the major employer in the Bombala region with in excess of 150 employees. The Company manages in excess of 18,000 hectares of softwood plantations, ranging from new plantings to mature trees. The Company has been operating since 1980 and has total assets in excess of \$175 million.

In recent years, Willmott Forests has been responsible for approximately 74% of all newly established softwood plantations in NSW and 15% Australia wide.

Over its long history, Willmott Forests has continued to grow and remains an industry leader with an exemplary reputation in establishing and providing ongoing management of *Pinus radiata* plantations.

### History

In 1979 the late Hector Willmott founded the business now named after him. Willmott Forests continues to develop the vision of its founder by providing future generations of Australians with a sustainable supply of softwood timber products.

Willmott Forests has been involved in forest management since 1980. The longevity and success of Willmott Forests' business is particularly significant given the long life cycle of forestry products. The company has reached this position by being adaptable

and innovative through a number of legislative, industry, market and environmental changes over the years.

Willmott Forests has established long standing and strong Government and community links.

### Vertical integration

Willmott Forests is a fully integrated forestry company with downstream processing operations in Bombala New South Wales. The Company's focus is on landscape and structural timber products for the Australian market.

Willmott Forests' sawmill facility is actively involved with the wholesale market and is focused on stress graded structural softwood timber production.

Willmott Forests' landscape products plant is involved in the three primary facets of milling operations; processing, refinement and treatment. The softwood timber products currently produced by this mill include both treated and untreated structural and visual grade timber, stress boards, decking, sleepers and palings.

### Managed investments

Willmott Forests is a pioneer in Managed Forestry Investments and as the Responsible Entity controls a number of managed investment projects. In 1989 Willmott Forests offered its first 'prescribed interest' project via a registered prospectus.

Since then the Company's fundraising activities have given rise to over 50 *Pinus radiata* plantations in New South Wales and Victoria.

**Willmott Forests is the largest developer of softwood plantations in Australia.**



PLANT

MANAGE

HARVEST

PROCESS

SUPPLY

## THE BOARD

### **James William Antony Higgins** LLB, LLM, FCPA

#### Chairman

Mr Higgins has spent most of his professional life practising in corporate and commercial law and has been involved in the legal aspects of managed investment schemes over the last 23 years. He is currently self-employed as the sole proprietor of James Higgins and Co. specialising in estate planning and commercial law. Previously, he worked as a Partner of Mallesons Stephen Jaques from 1974 to 1998. Mr Higgins is currently a Member of the Compliance Committees of Citigroup Asset Management Australia Ltd, National Mutual Funds Management Ltd and he is the Chairman of Liberty Funding Pty Ltd. Mr Higgins has Bachelor of Laws and Master of Laws Degrees from the University of Melbourne. He is a Fellow of the Australian Society of Certified Practising Accountants and of the Australian Institute of Company Directors.

### **Marcus Derham** FAICD, FAIM

#### Chief Executive Officer

Mr Derham has been involved in the forestry industry for 18 years at both middle and senior management level and has been the Chief Executive Officer of Willmott Forests since 1991. During that time he has dealt with all facets of practical forest management from site preparation through to utilisation. Over the last 13 years he has been involved in the management and administration of all of Willmott Forests' projects and forged a strong and cooperative relationship with numerous Government departments and agencies. Mr Derham is affiliated with a number of industry associations and is Vice-Chairman of an industry-based chapter of the Australian Forest Growers (AFG) called Treefarm Investment Managers Australia (TIMA). Mr Derham holds a Certificate of Applied Management, he is a Fellow of the Australian Institute of Management and the Australian Institute of Company Directors. He is a member of Willmott Forests' Nomination Committee and Remuneration Committee.

### **Jonathan David Madgwick** BBus, ACA

#### Non-Executive Director

Mr Madgwick has over 23 years of experience in public practice accountancy and is a Chartered Accountant, registered company Auditor and registered Tax Agent. He has been directly involved in an advisory capacity for Willmott Forests' commercial forestry projects over the last 13 years and a Non-Executive Board member of Willmott Forests Limited for 10 years. Mr Madgwick is a member of the Willmott Forests Audit Committee and is the Company's Professional Accountant and company Secretary. In 2001 Mr Madgwick represented the industry based chapter of the Australian Forest Growers called Treefarm Investment Managers Australia in successfully negotiating and drafting the provisions related to the extension of the 12 month taxation rule for plantation investment activities with Treasury and the Australian Taxation Office. Mr Madgwick is recognised by the plantation industry as being expert in taxation matters. He graduated from the Royal Melbourne Institute of Technology in 1984 with a Bachelor of Business Degree with distinction.

### **Hugh Thomas Davies** BA, LLB

#### Non-Executive Director

Mr Davies has been a practising solicitor since 1966. He currently works as a lawyer and mediator. He was formerly a Managing Partner of a commercial law firm. Mr Davies holds qualifications in the development of quality systems and as a mediator in all court jurisdictions. He graduated from the University of Melbourne with Bachelor of Law and Bachelor of Arts degrees. He is a member of Willmott Forests' Compliance Committee and the Chairman of Willmott Forests' Audit Committee.



Left to right: Marcus Derham, Chief Executive Officer; Jonathan Madgwick, Non-Executive Director; Hugh Davies, Non-Executive Director and James Higgins, Chairman.

The Board of Directors has adopted a Corporate Compliance Policy and Directors' Commitment Statement that expects high standards of corporate governance and ethical conduct from all Directors and staff.

## The Board

The Board of Directors is accountable to shareholders and stakeholders for the operations and overall performance of the Company. The Board's key responsibilities are:

- the strategic development of the Company;
- adherence to corporate and regulatory requirements;
- monitoring of the performance of executives and senior staff;
- the adoption of appropriate management and administrative systems; and
- the identification and application of appropriate risk management procedures.

The Board adopted the ASX Corporate Governance Guidelines for FY2004 and beyond and accordingly maintains committees of nomination, audit, remuneration and compliance. During the year, the Board, the Audit Committee and the Compliance Committee held scheduled meetings, as detailed in the Directors' Report. The Nomination and Remuneration Committees met as required.

The Board presently consists of four members, comprising the Chief Executive Officer and three Non-Executive Directors, two of whom are independent within the meaning of the ASX Corporate Governance Guidelines.

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense, with the prior approval of the Chairman.

Willmott Forests does not permit the buying or selling of shares, other securities or certain price sensitive financial products at any time by any Director, Executive or staff member who possesses price-sensitive information about the Company which is not available to the market. As a rule, our Directors and Senior Executives are only approved to trade our shares in the two 35-day periods commencing two days after the release of Willmott Forests' half yearly and yearly results.

## Risk Management

The Board of Willmott Forests formally adopted AS 4360 Risk Management in March 2002 as part of its corporate governance policy. Business risk is under constant surveillance by the Board, the Chief Executive Officer and Senior Executives. Risk management is monitored by best practice based on quality assurance practice under Quality System AS/NZS ISO 9001 and quality audit under AS 4360 Risk Management Plans. A policy of continuous improvement is encouraged.

The Compliance Committee monitors the Company's obligations under the managed investments provisions of Corporations Act 2001 ("Corporations Act"). Environmental risk is covered under the Forestry Code of Practice. All quality management procedures address the requirements of AS 4360 Risk Management.

## Ethical Standards

Willmott Forests recognises the importance of being a good corporate citizen, and as a result actively employs practices that reflect this on a social, environmental, and corporate governance level. The company actively seeks the appropriate accreditation for management and forestry practices where they exist, and where we feel there is a need for a code, plan or practice we formulate our own. The endeavours include:

- accreditation under AS/NZS ISO 9001;
- membership of Australian Forest Growers (AFG);
- accreditation under the AFG Disclosure Code for managed investments;
- membership of Treefarm Investment Managers Australia (TIMA);
- patronage of the Joseph William Gottstein Memorial Trust – the National Education Trust of the Australian Forest Industries;
- commitment to the Willmott Forests Award for Academic Excellence in the Advanced Diploma of Forestry (Melbourne University – Creswick Campus);
- implementation of the Code of Forestry Practice;
- continuing social commitment to training and employment; and
- implementation of a regional development plan, that incorporates our community and good neighbour policies.

# DIRECTORS' REPORT

The Directors of Willmott Forests Limited (the Company) present their report together with the financial report of the Company and the consolidated financial report of the economic entity, being the parent entity and its controlled entities for the year to 30 June 2004, and the auditors' report thereon.

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

Mr James William Antony Higgins  
Chairman

Mr Marcus Derham  
Chief Executive Officer

Mr Jonathan David Madgwick

Mr Hugh Thomas Davies

Mr Ian Richard Bond  
(retired 31 October 2003)

Directors have been in office since the start of the year unless otherwise stated.

The experience, qualifications and special responsibilities of each of the Directors are set out against their respective names in The Board section of the 2004 Annual Accounts.

## Principal activities

The principal activities of the Company (consisting of the Company and the entities it controlled) during the course of the financial year were:

- marketing of afforestation investments to the public through complying offer documents;
- identification and acquisition of suitable land for plantation establishment combined with planting and maintenance of *Pinus radiata* plantations pursuant to Woodlot sales;
- management of the loan book generated by Woodlot sales;
- production, processing and sale of landscape and structural timber products; and
- maintenance of plantations.

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## Results

The consolidated profit of the Company, after providing for income tax and eliminating outside equity interests amounted to \$8,387,312 (2003: \$5,434,537).

## Dividends

Dividends paid or declared for payment are as follows:

Ordinary dividend paid on 1 July 2003 as recommended in last years' report	\$1,316,199
Interim ordinary dividend of \$0.02 paid on 22 March 2004	\$982,573
Final ordinary fully franked dividend of \$0.02 to be paid on 17 September 2004	\$ 983,981

## Review of operations

A detailed review of operations of the Company during the year and the results of those operations are set out in the Chairman's Message and the Chief Executive's Report. In addition to those reports, we note the following in relation to the operations of the Company:

### Managed investment activities

The Company developed and circulated two offer documents in 2004. Both were well supported by the Company's Dealer Network. As a result Woodlot sales revenue reached \$35.7 million (up 85% on 2003). Of this revenue, \$5.4 million has been recognised as income at 30 June 2004 and the balance of \$30.3 million has been carried forward to the 2005 financial year.

The 2004 retail Woodlot Product Disclosure Statement under the Willmott Forests Project was highly rated by two independent research houses (Adviser Edge and Australian Agribusiness Group), delivering increased sales. The Willmott Forests Professional Investor – 2004 Project was also well received and supported providing a sound and attractive alternative for larger investors.

### Forestry operations

Plantation establishment and maintenance activities have been completed in accordance with contractual obligations set out in the Forestry Management Agreements entered into with Growers and in accordance with Australian Taxation Office Product Rulings issued to the Company.

All land has been selected in accordance the land selection criteria. This is to ensure that the plantations have the best possible growing environment in order to produce the best quality timber.

Drought has affected much of rural Australia. This decline in rainfall is expected, to a degree, to restrict growth across plantation estates. Although the drought has impacted upon the Bombala region the harsher conditions felt in much of the rest of Australia have not been experienced across the Company's plantation estate.

The last fire season passed without incident, however, the Company has maintained its status as a registered Forestry Industry Brigade of the Country Fire Authority (CFA) within Victoria and has substantially increased its fire fighting capacity in the last 12 months.

### Timber processing activities

The company operated two timber processing operations in Bombala that specialise in producing landscape and structural timber products for the Australian market.

Significant upgrading works were undertaken and completed during the year at one of these facilities.

Currently these mills receive wood supply from State Forests of New South Wales under long-term supply contacts. It is expected that wood in-take, and in turn production, will increase in the future as plantations managed by the Company become available for harvesting.

Revenue from these operations was \$14.4 million producing an EBITDA of \$759,192.

### Management of loan book

The loan book has increased by 33.0% (2003: 19.5%). Continued good management of this loan book has ensured that the Bad Debt rate experienced by the Company is 0.025% (2003: 0.341%).

### Significant changes in state of affairs

The company became a fully integrated forestry business with its purchase and development of timber processing activities through its wholly owned subsidiaries Willmott Timbers Pty Ltd and Willmott Forest Products Pty Ltd. Both these softwood processing operations are based in Bombala, NSW.

On 25 July 2003, Willmott Timbers Pty Ltd settled a contract to purchase the assets and goodwill of Prime Pine Pty Ltd for \$8.3 million. This contract was funded by the Company's bank facilities and hire purchase finance together with the issue of 1,818,182 ordinary shares in Willmott Forests Limited.

The company raised share capital of \$8,704,921 through the issue of 6,353,957 shares to fund working capital, the sawmill acquisition and land purchases.

### Events Subsequent to balance date

The company is in the process of securitising receivables to the value of approximately \$4.7 million with NM Rothschild and Son Ltd.

There has not arisen in the interval between the end of the financial year and the date of this report any other matter or circumstance, that in the opinion of the Directors of the Company, has significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

## Outlook

The company will continue to pursue its focused approach of increasing profitability during the next financial year through the issue of offers seeking subscriptions to its afforestation investment products and continued trading of its softwood processing operations. In the opinion of the Directors, further information on these matters could prejudice the interests of the Company and has therefore not been included in this report.

## Options

No options were granted over unissued shares during or since the financial year by the Company to Directors or any of the five most highly remunerated officers as part of their remuneration.

Options granted during or since the financial year to brokers or dealer principals were as follows:

500,000 options granted to Grange Securities Limited at an exercise price of \$2.00 (exercisable on or before 31 July 2007).

At the date of this report the unissued ordinary shares of the Company under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
30 April 2002	31 January 2007	\$1.10	150,000
30 April 2002	31 January 2007	\$1.40	350,000
30 January 2003	30 January 2005	\$0.56	33,803
30 January 2003	30 January 2006	\$0.56	55,189
21 December 2003	21 December 2008	\$2.00	500,000
			1,088,992

During the year 625,000 employee options were surrendered without being exercised.

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During the year ended 30 June 2004, the following ordinary shares of the Company were issued on the exercise of options granted under the Dealer Option Plan and share placement agreements. No amounts are unpaid on any of the shares.

Grant Date	Exercise Price	Number of Shares Issued
26 January 2001	\$0.78	28,908
30 April 2002	\$1.10	275,000
30 January 2003	\$0.56	18,884
30 January 2003	\$0.56	27,166
30 January 2003	\$0.56	33,541
		383,499

No person entitled to exercise options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

## Employee Share Plan

During the year ended 30 June 2004, 50,399 ordinary shares of the Company to the value of \$100,949 were issued as part of the Employee Share Plan. Each employee received 499 shares to the value of \$1,000. These shares are held and administered by Willmott Forests Nominees Pty Ltd for a period of three years. No amounts are unpaid on any of the shares.

# DIRECTORS' REPORT (continued)

## Meetings of Directors

During the financial year the following Directors, Audit Committee and Compliance Committee meetings were held. Attendances were as follows:

Directors Meetings	Eligible for Attendance	Attended
Mr James Higgins	14	14
Mr Marcus Derham	14	13
Mr Jonathan Madgwick	14	14
Mr Ian Bond	6	5
Mr Hugh Davies	14	13
<b>Audit Committee Meetings</b>		
Mr Jonathan Madgwick	5	5
Mr James Higgins	5	5
Mr Hugh Davies	5	5
<b>Compliance Committee Meetings</b>		
Mr Hugh Davies	5	5
Mr Ian Bond	1	1

## Indemnified Officers

During or since the end of the financial year, the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following Directors against liabilities and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The amount of premium was \$60,375 for all Directors of the Company:

Mr James Higgins	(Non-executive Director and Chairman)
Mr Marcus Derham	(Chief Executive Officer)
Mr Jonathan Madgwick	(Non-executive Director)
Mr Hugh Davies	(Non-executive Director)
Mr Ian Bond	(Executive Director – retired 31 October 2003)

## Proceedings on behalf of the Company

No person has applied for leave of a court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Dated at Melbourne on 26 August 2004

Signed in accordance with a resolution of the Directors:



Marcus Derham  
Director



Jonathan David Madgwick  
Director

# STATEMENT OF FINANCIAL PERFORMANCE For the year ended 30 June 2004

	Note	Economic Entity		Parent Entity	
		2004 \$	2003 \$	2004 \$	2003 \$
Revenue from ordinary activities		45,282,277	19,938,141	22,935,446	16,641,574
Changes in inventories of finished goods and WIP		(2,779,576)	–	–	–
Raw materials and consumables		(8,006,645)	(782,490)	(1,781,244)	(782,490)
Employee costs		(9,007,851)	(3,494,197)	(4,923,357)	(3,460,199)
Depreciation and amortisation		(1,454,888)	(243,609)	(254,349)	(239,104)
Borrowing cost expense		(1,885,618)	(850,195)	(117,297)	(849,193)
Other expenses from ordinary activities		(10,039,331)	(6,817,052)	(9,085,910)	(5,838,102)
Profit from ordinary activities before income tax expense	2	12,108,368	7,750,598	6,773,289	5,472,486
Income tax attributable to ordinary activities	3	(3,721,095)	(2,370,005)	(2,073,528)	(1,651,242)
<b>Net profit from ordinary activities after income tax expense</b>		<b>8,387,273</b>	<b>5,380,593</b>	<b>4,699,761</b>	<b>3,821,244</b>
Net loss attributable to outside equity interests		39	53,944	–	–
Net profit attributable to members of the parent entity		8,387,312	5,434,537	4,699,761	3,821,244
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>8,387,312</b>	<b>5,434,537</b>	<b>4,699,761</b>	<b>3,821,244</b>
Basic earnings per share		19.9c	13.5c		
Diluted earnings per share		19.2c	13.1c		

*The accompanying notes form part of these financial statements.*

# STATEMENT OF FINANCIAL POSITION As at 30 June 2004

	Note	Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>Current assets</b>					
Cash	8	8,487,509	6,029,525	6,011,212	4,433,128
Receivables	9	12,903,463	7,269,829	11,709,137	6,723,384
Inventories	10	3,604,407	5,033,034	795,580	5,033,034
Other	11	14,208,345	4,523,674	12,581,442	4,521,168
<b>Total current assets</b>		<b>39,203,724</b>	<b>22,856,062</b>	<b>31,097,371</b>	<b>20,710,714</b>
<b>Non current assets</b>					
Receivables	9	91,156,510	71,786,351	9,818,856	5,005,069
Investments	12	8,171,392	5,057,352	61,298,160	35,679,121
Property, plant and equipment	15	30,070,269	14,637,564	22,993,118	13,708,352
Self-generating and regenerating assets	16	5,151,868	4,353,789	5,151,868	4,353,789
Intangibles	14	1,632,316	-	-	-
Other	10	256,807	200,977	82,684	33,591
<b>Total non current assets</b>		<b>136,439,162</b>	<b>96,036,033</b>	<b>99,344,686</b>	<b>58,779,922</b>
<b>Total assets</b>		<b>175,642,886</b>	<b>118,892,095</b>	<b>130,442,057</b>	<b>79,490,636</b>
<b>Current liabilities</b>					
Accounts payable	17	11,896,175	5,009,873	10,308,741	4,912,796
Interest bearing liabilities	18	1,083,673	337,461	17,617,654	3,201,130
Provisions	19	47,680,345	27,216,271	42,039,272	25,020,777
<b>Total current liabilities</b>		<b>60,660,193</b>	<b>32,563,605</b>	<b>69,965,667</b>	<b>33,134,703</b>
<b>Non current liabilities</b>					
Interest bearing liabilities	18	26,633,602	14,409,977	528,122	409,977
Provisions	19	24,182,510	25,229,295	1,331,382	1,118,921
<b>Total non current liabilities</b>		<b>50,816,112</b>	<b>39,639,272</b>	<b>1,859,504</b>	<b>1,528,898</b>
<b>Total liabilities</b>		<b>111,476,305</b>	<b>72,202,877</b>	<b>71,825,171</b>	<b>34,663,601</b>
<b>Net assets</b>		<b>64,166,581</b>	<b>46,689,218</b>	<b>58,616,886</b>	<b>44,827,035</b>
<b>Equity</b>					
Contributed equity	20	38,735,282	27,678,638	38,735,282	27,678,638
Retained profits	7	25,426,411	19,005,653	19,881,604	17,148,397
Outside equity interest	21	4,888	4,927	-	-
<b>Total equity</b>		<b>64,166,581</b>	<b>46,689,218</b>	<b>58,616,886</b>	<b>44,827,035</b>

*The accompanying notes form part of these financial statements.*

# STATEMENT OF CASH FLOWS For the year ended 30 June 2004

	Note	Economic Entity		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers		50,052,129	8,164,607	37,991,776	9,042,859
Interest received		7,649,555	6,245,990	44,050	2,974,242
Payments to suppliers and employees		(27,548,711)	(9,316,690)	(12,394,018)	(8,688,021)
Borrowing costs paid		(1,932,109)	(850,195)	(117,297)	(849,193)
Income taxes paid		(3,214,319)	(1,534,418)	(2,337,616)	(1,330,802)
<b>Net cash provided by (used in) operating activities</b>		<b>25,006,545</b>	<b>2,709,294</b>	<b>23,186,895</b>	<b>1,149,085</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(15,961,177)	(1,150,791)	(9,526,750)	(221,577)
Proceeds from (payments for) investments		(28,221,003)	(1,461,002)	(30,476,436)	10,909,729
<b>Net cash provided by (used in) investing activities</b>		<b>(44,182,180)</b>	<b>(2,611,793)</b>	<b>(40,003,186)</b>	<b>10,688,152</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		11,056,644	113,789	11,056,644	113,789
Proceeds from (repayment of) borrowings		12,875,747	1,827,212	9,636,503	(10,958,561)
Dividends paid		(2,298,772)	(1,077,941)	(2,298,772)	(1,077,941)
<b>Net cash provided by (used in) financing activities</b>		<b>21,633,619</b>	<b>863,060</b>	<b>18,394,375</b>	<b>(11,922,713)</b>
Net increase (decrease) in cash held		2,457,984	960,561	1,578,084	(85,476)
Cash at beginning of year		6,029,525	5,068,964	4,433,128	4,518,604
<b>Cash at end of year</b>		<b>8,487,509</b>	<b>6,029,525</b>	<b>6,011,212</b>	<b>4,433,128</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE STATEMENT OF CASH FLOWS For the year ended 30 June 2004

	Note	Economic Entity		Parent Entity	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Notes to the statement of cash flows</b>					
Reconciliation of cash					
Cash at the end of financial year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as follows:					
Cash on hand		600	400	400	400
Cash at bank		6,544,409	6,029,125	4,258,993	4,432,728
Deposits at call		1,942,500	-	1,751,819	-
		<b>8,487,509</b>	<b>6,029,525</b>	<b>6,011,212</b>	<b>4,433,128</b>
Reconciliation of net cash provided by operating activities to benefits accrued as a result of operations					
Operating profit after income tax		8,387,273	5,380,593	4,699,761	3,821,246
Non cash flows in profit from ordinary activities:					
Depreciation and amortisation		1,454,888	243,609	254,349	239,104
Net (gain) loss on sale of non current assets		12,094	-	(12,369)	-
Charges to (from) current provisions		11,688,795	93,676	10,497,436	13,211
Charges to (from) non current provisions		(683,390)	75,421	293,471	(224,579)
Changes in assets and liabilities, net of the effects of purchases and disposals					
Decrease (increase) in forestry plantations		(783,814)	(499,847)	(783,814)	(499,847)
Decrease (increase) in current inventories		1,428,627	(4,568,773)	4,237,454	(4,568,773)
Decrease (increase) in prepayments		(1,947,881)	(1,610,120)	(1,747,719)	(695,955)
Increase (decrease) in trade and other creditors		7,755,049	2,791,076	6,195,655	2,776,166
Decrease (increase) in current receivables		(2,811,872)	(31,928)	(183,241)	(31,928)
Increase (decrease) in income taxes payable		8,005,424	1,115,590	6,621,236	452,678
Increase (decrease) in deferred taxes payable		(7,498,648)	(280,003)	(6,885,324)	(132,238)
<b>Cash flows from operations</b>		<b>25,006,545</b>	<b>2,709,294</b>	<b>23,186,895</b>	<b>1,149,085</b>

## Note 1. Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report covers the economic entity of Willmott Forests Limited and controlled entities and Willmott Forests Limited as an individual parent entity. Willmott Forests Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

### Principles of consolidation

A controlled entity is any entity controlled by Willmott Forests Limited. Control exists where Willmott Forests Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Willmott Forests Limited to achieve the objectives of Willmott Forests Limited. The controlled entities are Willmott Finance Pty Ltd, Willmott Forests Investment Management Pty Ltd, Willmott Timbers Pty Ltd, Willmott Forest Products Pty Ltd, Willmott-Riverdale Pty Ltd, Willmott Insurance Limited (Cook Islands) and Willmott Forests Nominees Pty Ltd. All entities are wholly owned save for Willmott-Riverdale Pty Ltd, which is 51%, owned.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses have been eliminated on consolidation.

### Income tax

The company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the operating profit adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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

### Investments

Non-current investments are carried at cost or at Directors' valuation. The carrying amount of investments are reviewed annually by Directors to ensure they are not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the shares' market value or the underlying net assets in the particular companies. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

Dividends and interest are brought to account in the profit and loss statement when received.

## Inventories

Inventories are measured at the lower of cost and net realisable value. The costs of manufactured products include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

## Property, plant and equipment

Plant and equipment are measured on the cost basis.

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

## Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a straight line or diminishing value basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge.

The expected useful lives are as follows:

Category of fixed assets	Useful life
Plant and equipment	4 – 13 1/3 years
Leased plant and equipment	4 – 20 years
Fixtures and fittings	3 – 20 years

## Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company, are classified as finance leases. Finance leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are depreciated over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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

## Employee entitlements

Provision is made for the economic entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits later than one year have been measured at the present value of the estimated future cash flows to be made for those benefits.

Contributions are made by the Company to an employee's superannuation fund and are charged as expenses when incurred.

The Willmott Forests Limited Employee Share Plan is in operation whereby all full time permanent non probationary employees receive once a year \$1,000 of shares issued at a price determined by market price as at the time of issue.

## Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at-call deposits with banks or financial institutions and investments in money market instruments maturing within less than two months, net of bank overdrafts.

### Revenue recognition

Forestry management income is brought to account in proportion to the work performed, recognising the various stages of plantation establishment and maintenance under agreements entered into by the Company. Unearned revenue represents the proportion of plantation contracts that are not completed as at the end of the financial year.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established.

### Goods and Services Taxation (GST)

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

### Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is amortised on a straight line basis over the period of 20 years. The balance is reviewed annually and any balance representing future benefits for which the realisation is considered no longer probable are written off.

### Self-generating and regenerating assets

The company has adopted the standard identified as AASB 1037 – Self-generating and Regenerating Assets – in respect of its forestry assets. The effect of this standard is to bring to account as an asset the value of the Company's forestry assets at Net Market Values (NMV). Following is a list of the assumptions used to reach this value:

#### *Forestry holdings*

Plantations under management are situated in the Bombala and surrounding regions of Southern NSW and Victoria.

The economic entity obtains additional forestry holdings through acceptance by Willmott Forests Limited of an assignment of forestry holdings from Growers under management in lieu of interest payments on loan principals outstanding to the economic entity. This assignment relieves the grower of interest payments on loan principals outstanding from year 11 through to clear fell.

#### *M<sup>3</sup>*

Through consultation with industry experts, the Company has estimated that each hectare of forest will generate over its 25 year life cycle an average of 488m<sup>3</sup> of timber. This yield results from appropriate silvicultural techniques and the assumption that thinning of the plantation will occur at Years 13, 18 and clear fell at Year 25. This program yields various grades of timber from pulpwood through to veneer logs with annual increments in timber levels and total standing volumes.

#### *Valuation*

Although there is an intermittently active market for softwood plantations, there is no suitable market evidence available to value the plantations by reference to equivalent sales. Accordingly, the best indicator of net market value is net present value.

Significant assumptions made in determining the NMV of the plantations are:

- (a) the trees will reach maturity 25 years after planting;
- (b) the trees will be thinned at 13 years and 18 years with clear fell at 25 years;
- (c) the expected price of the timber product and associated costs of harvest and selling are estimated to increase at a rate of 3.35% per annum; and
- (d) the nominal pre-tax rate at which the net cash flows are discounted is 12.5% per annum.

## Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The economic entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. The company has established a program to oversee and manage the economic entity's transition to IFRS and the Company has set out a plan for how to comply with the future requirements. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The Directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of IFRS are:

- *Goodwill*

Under the proposed changes from the introduction of IAS38 Intangible Assets, goodwill is to be capitalised in the statement of position and subjected to an annual impairment test. Amortisation of goodwill is to be prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over a period of 20 years.

- *Income tax*

Currently the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS12, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

- *Securitisation*

Under proposed changes from the introduction of IAS39 Financial Instruments, it is expected that loans securitised and currently held off balance sheet will be reintroduced to the Statement of Financial Position. These loans will be reintroduced as a financial asset under term loans receivable, with an equivalent liability in borrowings. No profit impact is expected.

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 2. Profit from ordinary activities</b>				
<b>(a) Profit from ordinary activities before income tax has been determined after:</b>				
Crediting as income:				
Interest received				
Bank	527,926	93,585	473,242	76,244
Growers and other	6,734,769	6,071,940	194,945	2,817,533
Net gain on disposal of non current assets:				
Property, plant and equipment	–	2,793	12,369	2,793
Charging as expense:				
Depreciation:				
Plant and equipment	261,032	98,258	116,096	98,258
Fixtures and fittings	22,133	20,691	13,813	20,691
Write-off non current assets	20,423	–	20,423	–
Net loss on disposal of non current assets	12,094	–	–	–
Amortisation:				
Plant and equipment under lease	1,071,068	124,660	104,017	120,155
Goodwill	80,232	–	–	–
Borrowing costs:				
Bank	1,453,369	803,561	58,859	802,559
Other persons	432,249	46,634	58,438	46,634
Bad debts	91,321	279,272	1,516	24,205
Cost of goods sold	8,006,645	782,490	1,781,244	782,490
Rental on properties	148,570	114,396	117,718	114,396
Remuneration of the auditors:				
Auditing or reviewing the financial report	81,850	68,370	81,850	68,370
Other services	24,838	11,990	8,650	–
<b>(b) Operating activities:</b>				
Included in operating profit are the following items of operating revenue:				
Plantation income	21,909,645	13,092,226	20,541,632	12,410,101
Timber and products sales	14,329,181	–	–	–
Interest	7,262,694	6,165,525	668,187	2,893,777
Increment in net market value – forest plantations	783,814	499,847	783,814	499,847
Management charges	–	–	–	682,124
Dividends	189,326	–	189,326	–
Other Income	807,617	157,418	752,487	132,600
	<b>45,282,277</b>	<b>19,938,141</b>	<b>22,935,446</b>	<b>16,641,574</b>

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2004 (continued)

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 3. Income tax expense</b>				
The prima facie tax on profit from ordinary activities before income tax is reconciled to tax expense as follows:				
<b>Income tax expense attributable to:</b>				
Prima facie tax payable on profit from ordinary activities before income tax at 30%	3,629,515	2,325,179	2,028,991	1,641,746
Add tax effect of:				
Non-deductible items	31,738	9,532	168	9,496
Underprovision in prior year	54,668	–	44,369	–
Tax losses not brought to account	5,174	35,294	–	–
<b>Income tax attributable to profit from ordinary activities</b>	<b>3,721,095</b>	<b>2,370,005</b>	<b>2,073,528</b>	<b>1,651,242</b>
<b>Note 4. Dividends</b>				
Dividends paid and fully provided for in previous year – fully franked				
Interim fully franked dividend of \$0.02 per share (2003: nil)			1,316,199	1,077,941
Fully franked dividend provided of \$0.02 per share (2003: \$0.03255)			982,573	–
			983,981	1,316,199
Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years:				
			18,197,604	9,492,568
<b>Note 5. Earnings per share</b>				
(a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS				
			42,193,547	40,363,570
Weighted average number of options outstanding				
			1,522,946	1,189,312
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS				
			43,746,493	41,552,882
(c) Classification of securities				
Diluted earnings per share is calculated after classifying all options on issue and all ownership based remuneration scheme shares at 30 June 2004 as potential ordinary shares.				

## Note 6. Directors' and Executive's emoluments

(a) Names and positions held of parent entity Directors and specified Executives in office at any time during the financial year are:

### Parent Entity Directors

Mr James William Antony Higgins	Chairman – Non-executive
Mr Marcus Derham	Chief Executive Officer – Executive
Mr Jonathan David Madgwick	Director – Non-executive
Mr Hugh Thomas Davies	Director – Non-executive
Mr Ian Richard Bond	Director – Non-executive (retired 31 October 2003)

### Specified Executives

Mr Antony Spielvogel	Senior Executive – Sales and Marketing
Mr Gregory MacMillan	Client Services Liaison
Mr David Smith	Senior Executive – Forestry Operations
Mr Samuel Baker	Executive – Processing
Mr Stephen Arrowsmith	Senior Executive – Financial Controller
Mr Paul Dickson (Prior Year)	Executive – Wholesale Sales and Marketing
Mr Philip Green (Prior Year)	Operations Manager

The company reviews Directors and Senior Executives' emoluments on an annual basis which are duly approved by the board.

Remuneration received, or due and receivable, throughout the financial year to Directors and Senior Executives is as follows:

### (b) Parent entity's Directors remuneration

2004	Salary and Fees \$	Superannuation Contributions \$	Cash Bonus \$	Non-Cash Benefits \$	Equity Shares \$	Other \$	Total \$
Mr JWA Higgins	65,000	5,850	–	–	–	–	70,850
Mr M Derham	432,042	38,884	–	6,580	1,000	–	478,506
Mr JD Madgwick	50,000	4,500	–	5,666	–	218,639	278,805
Mr HT Davies	53,750	17,100	–	–	–	15,058	85,908
Mr IR Bond	–	–	–	–	–	45,833	45,833
	<b>600,792</b>	<b>66,334</b>	<b>–</b>	<b>12,246</b>	<b>1,000</b>	<b>279,530</b>	<b>959,902</b>

2003	Salary and Fees \$	Superannuation Contributions \$	Cash Bonus \$	Non-Cash Benefits \$	Equity Shares \$	Other \$	Total \$
Mr JWA Higgins	60,000	5,400	–	–	–	–	65,400
Mr M Derham	416,040	37,444	–	7,834	1,000	–	462,318
Mr JD Madgwick	40,000	3,600	–	7,206	–	166,922	217,728
Mr HT Davies	60,000	5,400	–	–	–	12,934	78,334
Mr IR Bond	–	–	–	–	–	130,416	130,416
	<b>576,040</b>	<b>51,844</b>	<b>–</b>	<b>15,040</b>	<b>1,000</b>	<b>310,272</b>	<b>954,196</b>

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2004 (continued)

## (c) Specified Executives' remuneration

2004	Salary and Fees \$	Superannuation Contributions \$	Cash Bonus \$	Non-Cash Benefits \$	Equity Shares \$	Other \$	Total \$
Mr A Spielvogel	259,021	11,779	893,550	-	1,000	-	1,165,350
Mr G MacMillan	-	-	-	-	-	603,509	603,509
Mr D Smith	252,578	11,688	30,000	8,676	1,000	-	303,942
Mr S Baker	-	-	-	-	-	257,755	257,755
Mr S Arrowsmith	188,649	16,978	-	-	1,000	-	206,627
	<b>700,248</b>	<b>40,445</b>	<b>923,550</b>	<b>8,676</b>	<b>3,000</b>	<b>861,264</b>	<b>2,537,183</b>

2003	Salary and Fees \$	Superannuation Contributions \$	Cash Bonus \$	Non-Cash Benefits \$	Equity Shares \$	Other \$	Total \$
Mr A Spielvogel	224,572	20,211	578,550	-	1,000	-	824,333
Mr G MacMillan	-	-	-	-	-	274,570	274,570
Mr D Smith	198,279	17,845	-	8,561	1,000	-	225,685
Mr P Dickson	150,000	15,000	-	-	1,000	-	166,000
Mr P Green	87,134	22,815	-	-	-	-	109,949
	<b>659,985</b>	<b>75,871</b>	<b>578,550</b>	<b>8,561</b>	<b>3,000</b>	<b>274,570</b>	<b>1,600,537</b>

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## (d) Shareholdings

Number of shares held by parent entity Directors and specified Executives

	Balance 30 June 2003	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30 June 2004
Mr JWA Higgins	23,065	-	-	933	23,998
Mr M Derham	29,287,367	499	-	(2,211,000)	27,076,866
Mr JD Madgwick	1,192,000	-	-	(890,000)	302,000
Mr HT Davies	84,000	-	-	-	84,000
Mr IR Bond	262,000	-	-	-	262,000
Mr A Spielvogel	4,401	499	-	-	4,900
Mr G MacMillan	316,729	-	56,074	(106,708)	266,095
Mr D Smith	304,528	499	-	(141,263)	163,764
Mr S Baker	-	-	-	1,818,182	1,818,182
Mr S Arrowsmith	62,000	499	-	-	62,499
	<b>31,536,090</b>	<b>1,996</b>	<b>56,074</b>	<b>(1,529,856)</b>	<b>30,064,304</b>

\* Net change other refers to shares purchased or sold during the financial year.

## (e) Remuneration practices

The company's policy for determining the nature and amount of remuneration paid to Board Members and Senior Executives of the Company is as follows:

The remuneration structure for Executive Officers, including Executive Directors, is based on a number of factors including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and specified Directors and Executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified Executive Directors and Executives are paid employee benefit entitlements accrued to date of retirement.

The group seeks to emphasise payment for results through providing cash bonus reward schemes, and specifically, through incentive payments based on the achievement of sales targets. Bonuses included per note 6 (b) and (c) are based on these targets. The objective of the reward schemes is to both reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders. The bonuses were granted to specified executives on 30 June 2004. There has been no alteration to the terms of the bonuses paid since grant date.

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 7. Retained earnings</b>				
Retained profits at the start of the financial year	19,005,653	14,887,316	17,148,397	14,643,353
Net profit attributable to members of the economic entity	8,387,312	5,434,537	4,699,761	3,821,244
Dividends paid or provided – fully franked	(1,966,554)	(1,316,200)	(1,966,554)	(1,316,200)
<b>Retained profits at the end of the financial year</b>	<b>25,426,411</b>	<b>19,005,653</b>	<b>19,881,604</b>	<b>17,148,397</b>
<b>Note 8. Cash</b>				
Cash on hand	600	400	400	400
Cash at bank	6,544,409	6,029,125	4,258,993	4,432,728
Short term deposit – at bank	1,942,500	–	1,751,819	–
	<b>8,487,509</b>	<b>6,029,525</b>	<b>6,011,212</b>	<b>4,433,128</b>
<b>Note 9. Receivables</b>				
Current				
Trade debtors	2,937,829	308,846	344,050	308,846
Provision for doubtful debts	(55,000)	–	–	–
Term debtors	9,771,625	6,036,633	4,839,318	4,909,973
Sundry debtors	249,009	924,350	214,157	66,120
Loans to subsidiaries	–	–	6,311,612	1,438,445
	<b>12,903,463</b>	<b>7,269,829</b>	<b>11,709,137</b>	<b>6,723,384</b>
Non current				
Term debtors	91,761,510	72,116,351	9,948,856	5,035,069
Provision for doubtful debts	(630,000)	(330,000)	(130,000)	(30,000)
Loans to related parties	25,000	–	–	–
	<b>91,156,510</b>	<b>71,786,351</b>	<b>9,818,856</b>	<b>5,005,069</b>

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(a) Specified Directors' and Executives' loans

	Balance 1 July	Interest Charged	Interest Not Charged	Balance 30 June	Number of Individuals
Specified Directors					
2004	911,200	79,029	–	911,900	3
2003	911,200	66,255	–	911,200	3
Specified Executives					
2004	–	–	493	36,550	2
2003	–	–	–	–	–

Individuals with loans above \$100,000 in reporting period.

	Balance 1 July	Interest Charged	Interest Not Charged	Balance 30 June	Highest Balance During the Period
Mr Marcus Derham	883,200	77,280	–	883,200	883,200

The above loan to Mr Marcus Derham represents amounts payable in respect of investments in the parent entity's Woodlots. These loans have been made on the same commercial terms and conditions as made to other investors.

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2003 (continued)

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 10. Inventories</b>				
Current				
Consumable stores – seedlings and Chemicals at cost	824,831	265,334	795,580	265,334
Sawmill timber stock	1,759,081	–	–	–
Work in progress	1,020,495	4,767,700	–	4,767,700
	<b>3,604,407</b>	<b>5,033,034</b>	<b>795,580</b>	<b>5,033,034</b>
<b>Note 11. Other assets</b>				
Current				
Prepayments	3,532,874	1,584,993	3,330,207	1,582,488
Future income tax benefit	10,675,471	2,938,681	9,251,235	2,938,680
	<b>14,208,345</b>	<b>4,523,674</b>	<b>12,581,442</b>	<b>4,521,168</b>
Non current				
Future income tax benefit	256,807	200,977	82,684	33,591
<b>Note 12. Investments</b>				
Non current				
Shares in unlisted companies – at cost	250,000	570,000	250,000	570,000
Shares in subsidiaries at cost	–	–	53,126,768	30,621,769
Investments at cost	7,921,392	4,487,352	7,921,392	4,487,352
	<b>8,171,392</b>	<b>5,057,352</b>	<b>61,298,160</b>	<b>35,679,121</b>

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	Country of Incorporation	Percentage Owned (%)	
		2004	2003
		\$	\$
<b>Note 13. Contributed equity</b>			
Parent Entity:			
Willmott Forests Limited	Australia	–	–
Subsidiaries:			
Willmott Finance Pty Ltd	Australia	100	100
Willmott Timbers Pty Ltd	Australia	100	100
Willmott Forest Products Pty Ltd	Australia	100	100
Willmott Forests Investment Management Pty Ltd	Australia	100	100
Willmott-Riverdale Pty Ltd	Australia	51	51
Willmott Insurances Limited	Cook Islands	100	100
Willmott Forests Nominees Pty Ltd	Australia	100	100

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 14. Goodwill</b>				
Non current				
Goodwill on purchase of Prime Pine	1,712,548	–	–	–
Less: Accumulated amortisation	80,232	–	–	–
	<b>1,632,316</b>	<b>–</b>	<b>–</b>	<b>–</b>

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 15. Property, plant and equipment</b>				
Freehold land at cost	21,662,663	13,426,226	20,885,944	12,858,013
Plant and equipment at cost	7,886,964	928,056	822,678	567,057
Less: Accumulated depreciation	1,294,389	269,655	203,434	269,655
	6,592,575	658,401	619,244	297,402
Lease assets at cost	928,852	733,295	617,286	733,295
Less: Accumulated amortisation	209,847	238,293	203,439	238,293
	719,005	495,002	413,847	495,002
Fixtures and fittings at cost	1,163,579	103,456	1,133,314	103,456
Less: Accumulated depreciation	67,553	45,521	59,231	45,521
	1,096,026	57,935	1,074,083	57,935
<b>Total property, plant and equipment</b>	<b>30,370,269</b>	<b>14,637,564</b>	<b>22,993,118</b>	<b>13,708,352</b>
<b>Note 16. Self-generating and regenerating assets</b>				
Opening NMV of trees held	4,200,347	3,763,171	4,200,347	3,763,171
Increase in NMV of existing trees from growth	677,713	168,488	677,713	168,488
NMV of plantations assigned by Growers	106,101	331,359	106,101	331,359
Increment in NMV – forest plantations	783,814	499,847	783,814	499,847
NMV of assignments from default	14,265	90,771	14,265	90,771
NMV of trees held	4,998,426	4,200,347	4,998,426	4,200,347
First thinnings held	153,442	153,442	153,442	153,442
<b>NMV of all trees in plantations held for sale or to generate produce for sale</b>	<b>5,151,868</b>	<b>4,353,789</b>	<b>5,151,868</b>	<b>4,353,789</b>

#### Net Market Value (NMV) of plantations

The NMV of Plantations is obtained through discounted cash flow modelling of the net proceeds to be obtained from sale of pulpwood, preservation and sawlogs during the life of the plantation. Assumptions used are as follows:

- Current timber prices are in accordance with current rates as advised by independent forestry experts contracted by the Company.
- Timber yields have been adjusted to reflect volumes as reported by independent forestry experts contracted by the Company. Forests have been independently inspected and assessed in the current year to more accurately determine thinning and clear fell yields.
- Future cash flows are determined by reference to current timber prices, indexed by 3.35 % per annum.
- A nominal discount rate of 12.5% has been struck having regard to the following:
  - (1) The illiquid nature of the plantations prior to maturity.
  - (2) A lack of market evidence as to the value of forests midway through their life cycle.
  - (3) Adoption of a conservative valuation approach.
- Increments in NMV carried to revenue from grower assignments are recognised at the time of transfer by Growers under management. Whilst the Company has a reasonable expectation that future assignments will continue, no recognition within the accounts is made until assignment.

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2004 (continued)

	Hectares		m <sup>3</sup>		Net Change in NMV		NMV of Felled Logs	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>Plantations</b>								
> 10yrs old	143	131	37,615	33,818	(368,954)	249,588	-	-
5-10 yrs old	738	602	56,125	39,357	1,068,478	279,363	-	-
< 5 yrs old	55	184	388	2,563	77,856	61,667	-	-
<b>Total</b>	<b>936</b>	<b>917</b>	<b>94,128</b>	<b>75,738</b>	<b>777,380</b>	<b>590,618</b>	<b>-</b>	<b>-</b>

## Net Change in NMV

The net increment in the net market value of trees in plantations recognised as revenue is determined as the difference between the net market value of timber as at the beginning of the financial year and the net market value of timber as at the end of the financial year. This value includes both growth of plantations held at the commencement of the year, and new plantation hectares obtained throughout the year. The net decrement for hectares over 10 years old relates to the adoption by the economic entity of expected timber yields as advised by the entity's independent forester.

Hectares obtained throughout the year are gained through acceptance by Willmott Forests Limited of an assignment of forest hectares from Growers under management in lieu of interest payments on loan principals outstanding to the Company. This assignment relieves the grower of interest payments from Year 11 through to clear fell.

## NMV of felled logs

The net market value of felled logs recognised as revenue is determined as the difference between the net market value of logs felled during the financial year immediately after felling and the costs of felling.

## Sensitivity of the Net Market Value of the trees held primarily for sale or to generate produce for sale to changes in significant assumptions

	Change	Effect on Net Market Value	
		2004	2003
		\$	\$
Discount rate	12.5% + 1%	(617,911)	(489,320)
	12.5% - 1%	717,387	569,238
Future costs	+ 5%	(2,758)	(2,122)
	- 5%	2,758	2,122
Market price for softwood timber	+ 5%	271,570	210,017
	- 5%	(271,570)	(210,017)

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 17. Accounts payable</b>				
<b>Current</b>				
Trade creditors	8,186,263	1,541,428	6,785,709	1,467,941
Other creditors	744,145	2,284,746	558,589	2,284,746
Loan from related entities	-	69,090	-	-
GST payable	2,965,767	1,114,609	2,964,443	1,160,109
	<b>11,896,123</b>	<b>5,009,873</b>	<b>10,308,741</b>	<b>4,912,796</b>

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 18. Interest bearing liabilities</b>				
Current				
Hire purchase and lease liability	1,083,673	337,461	347,832	337,461
Loans from subsidiaries	-	-	17,269,822	2,863,669
	<b>1,083,673</b>	<b>337,461</b>	<b>17,617,654</b>	<b>3,201,130</b>
Non current				
Hire purchase and lease liability	5,415,602	409,977	528,122	409,977
Bills of exchange	21,218,000	14,000,000	-	-
	<b>26,633,602</b>	<b>14,409,977</b>	<b>528,122</b>	<b>409,977</b>

(a) The bills of exchange are secured by a specific deed of charge over the terms debtors of Willmott Finance Pty Ltd which amount to \$94,085,812.

Willmott Forests Limited's subsidiaries covenants in respect of bank borrowings require total bank debt not to exceed 40% of total debtors secured, for net assets to exceed 35% of total tangible assets and borrowing costs not to exceed 50% of profit from ordinary activities before income tax and borrowing costs.

The full facility provided by the Commonwealth Bank of Australia is \$57,000,000 subject to covenants.

Bills payable have been drawn primarily as a source of long term debt. The facility is a rolling 180 day facility and bears interest at market rates payable in advance on rollover.

Bank Guarantees of \$768,000 have been issued to State Forest New South Wales and forms part of the facility provided by the Commonwealth Bank of Australia to Willmott Forests Limited.

(b) The Hire Purchase and Lease facilities are secured by way of security over relevant assets and a guarantee from the parent Company.

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 19. Provisions</b>				
Current				
Provision for unearned revenue	32,693,617	21,317,351	30,318,372	19,909,135
Provision for dividend	983,981	1,316,200	983,981	1,316,200
Provision for Insurance distribution	799,708	-	799,708	-
Provision for employee entitlements	663,623	110,552	411,909	110,552
Provision for income tax	10,548,543	2,543,119	8,377,077	1,755,841
<b>Provision for deferred tax liability</b>	<b>1,990,873</b>	<b>1,929,049</b>	<b>1,148,225</b>	<b>1,929,049</b>
	<b>47,680,345</b>	<b>27,216,271</b>	<b>42,039,272</b>	<b>25,020,777</b>
Non current				
Provision for deferred tax liability	1,269,099	1,036,952	1,269,099	1,036,952
Provision for employee entitlements	171,025	81,969	62,283	81,969
Provision for unearned revenue	22,742,386	24,110,374	-	-
	<b>24,182,510</b>	<b>25,229,295</b>	<b>1,331,382</b>	<b>1,118,921</b>
<b>Aggregate employee entitlement liability</b>	<b>836,648</b>	<b>192,521</b>	<b>474,192</b>	<b>192,521</b>
<b>Total number of employees</b>	<b>141</b>	<b>34</b>	<b>52</b>	<b>34</b>

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2004 (continued)

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Note 20. Contributed equity</b>				
Opening contributed equity			27,678,638	27,564,849
Shares issued during the year:				
1,818,182 on 25 July 2003			2,000,000	–
4,263,047 on 26 September 2003			5,840,368	–
2,090,910 on 5 November 2003			2,864,547	–
12,196 on 12 March 2004			25,000	–
Shares issued under the employee share scheme and dealer option plan			470,568	48,704
Shares issued under the dividend reinvestment plan			212,199	65,085
Issue costs			(356,038)	–
			<b>38,735,282</b>	<b>27,678,638</b>
	#	#	#	#
At the beginning of the reporting period			40,436,226	40,221,678
Issue of shares				
25 July 2003			1,818,182	–
26 September 2003			4,263,042	–
5 November 2003			2,090,910	–
12 March 2004			12,196	–
Shares issued under the employee share scheme and dealer option plan			433,898	94,020
Shares issued under the dividend reinvestment plan			144,619	120,528
<b>At reporting date</b>			<b>49,199,073</b>	<b>40,436,226</b>
	\$	\$	\$	\$
<b>Note 21. Outside equity interest in controlled entity</b>				
Outside equity interest comprises:				
Share capital	58,871	58,871	–	–
Share of retained profit/(loss)	(53,983)	(53,944)	–	–
	<b>4,888</b>	<b>4,927</b>	<b>–</b>	<b>–</b>
<b>Note 22. Financing arrangements</b>				
The company has access to the following lines of credit:				
Total facilities available:				
variable rate bill facility	22,000,000	22,000,000	–	–
	<b>22,000,000</b>	<b>22,000,000</b>	<b>–</b>	<b>–</b>
Facilities utilised at balance date:				
variable rate bill facility	22,000,000	14,000,000	–	–
	<b>22,000,000</b>	<b>14,000,000</b>	<b>–</b>	<b>–</b>
Surplus available to group at balance date	–	8,000,000	–	–
<b>Note 23. Commitments for expenditure</b>				
Operating lease commitments				
Within one year	319,285	117,230	319,285	117,230
Later than one year not later than five years	1,338,735	34,580	1,338,735	34,580
Later than five years	148,756	–	148,756	–
	<b>1,806,776</b>	<b>151,810</b>	<b>1,806,776</b>	<b>151,810</b>

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Hire purchase commitments</b>				
Within one year	847,715	890,534	169,425	89,220
Later than one year not later than five years	2,934,097	3,785,819	21,041	167,414
Later than five years	1,936,778	2,462,366	231,379	–
	<b>5,718,590</b>	<b>7,138,719</b>	<b>421,845</b>	<b>256,634</b>
<b>Finance lease commitments</b>				
Within one year	235,783	248,241	178,233	248,241
Later than one year not later than five years	427,413	242,562	158,387	242,562
Later than five years	117,512	–	117,512	–
	<b>780,708</b>	<b>490,803</b>	<b>454,132</b>	<b>490,803</b>
<b>Capital commitments</b>				
Contracts of Land Sale entered into under unconditional sale				
Within one year	199,512	318,756	199,512	318,756
Later than one year not later than five years	–	–	–	–
Later than five years	–	–	–	–
	<b>199,512</b>	<b>318,756</b>	<b>199,512</b>	<b>318,756</b>
<b>Contingent liability</b>				
Rothschild Ltd in respect to defaults of securitised receivables	580,541	172,776	580,541	172,776

#### Note 24. Segment information

The economic entity operates in the Management Investment Scheme (MIS) and timber processing industries, in the Bombala and surrounding regions of South East New South Wales and North East Victoria.

	Managed Investments		Timber Processing		Consolidated	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
External income	30,871,441	19,938,141	14,410,836	–	45,282,277	19,938,141
<b>Result</b>						
Segment earnings before interest, tax, depreciation and amortisation	14,689,682	9,046,671	759,192	(202,269)	15,448,874	8,844,402
Interest	1,358,109	850,195	527,509	–	1,885,618	850,195
Depreciation	254,349	239,104	1,120,307	4,505	1,374,656	243,609
Amortisation	–	–	80,232	–	80,232	–
Profit from ordinary activities before income tax	13,077,224	7,957,372	(968,856)	(206,774)	12,108,368	7,750,598
Income tax expense					3,721,095	2,370,005
<b>Profit/(loss) from ordinary activities after income tax</b>					<b>8,387,273</b>	<b>5,380,593</b>
Acquisition of land, property plant and equipment and intangible assets	9,510,950	287,350	7,480,440	929,213	16,991,390	1,944,271
Segment assets	159,266,863	117,080,342	16,376,023	1,012,553	175,642,886	118,892,895
Segment liabilities	101,026,116	72,157,769	10,450,189	45,108	111,476,305	72,202,877

## Note 25. Subsequent events

The company is in the process of securitising receivables of approximately \$4,700,000 with NM Rothschild and Son Ltd.

Since the end of the financial year the Company has entered into an extension of its current Commonwealth Bank of Australia facilities which have been increased by \$15,634,000 to \$37,634,000.

Woodlot sales up to 30 June 2004 equate to \$35,743,000 (2003: \$19,285,000). Of this, \$5,423,628 (2003: \$4,620,700) has been recognised as income at 30 June 2004 and the balance of \$30,318,372 (2003: \$14,664,300) has been carried forward to the 2005 Financial Year.

## Note 26. Related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Director related entities:

A Director, Mr Jonathan Madgwick in his capacity as principal of JD Madgwick Chartered Accountant, received accounting fees and other entitlements totalling \$218,639 (2003: \$166,922).

A Director, Mr Hugh Davies in his capacity as principal of Hugh Davies Solicitor, received legal fees totalling \$15,058 (2003: \$12,934).

A Director, Mr Ian Bond in his capacity as Director of Burke Bond Securities Ltd, received Director, secretarial and committee fees totalling \$45,833 (2003: \$130,416).

A subsidiary Director, Mr Samuel Baker through an associated company received contractual and property rental totalling \$257,755 (2003: \$0).

The company holds an investment of \$250,000 in preference capital in an entity controlled by a Director Mr Ian Bond.

The company held an investment of \$890,000 in redeemable preference capital in an entity controlled by a Director Mr Jonathan Madgwick. These preference shares were redeemed on 28 June 2004.

A subsidiary Director, Mr James Hochroth through an associated company received contractual payments totalling \$95,071 (2003 \$20,000).

A subsidiary Director, Mr Gregory MacMillan through an associated company received contractual payments and commission totalling \$603,509 (2003: \$274,570).

During the year, a Director, Mr Jonathan Madgwick in his capacity as principal of JD Madgwick Chartered Accountant, paid rent totalling \$7,799 (2003: \$10,400) for lease of office premises.

During the year the following Directors invested in Woodlots on the normal terms and conditions as other investors:

Mr Marcus Derham	–	(2003: 50)
Mr James Higgins	2	(2003: 2)
Mr Hugh Davies	–	(2003: 6)

## Note 27. Financial instruments

### (a) Financial instruments

#### (i) Derivative financial instruments:

The economic entity does not utilise derivative financial instruments.

#### (ii) Unrecognised financial instruments:

##### A. Forward exchange contracts

The economic entity does not utilise forward exchange contracts.

##### B. Interest rate swaps

The economic entity does not utilise interest rate swap contracts.

### (b) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provision for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

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### (c) Net fair values

The net fair values of terms debtors and government and fixed interest securities and bonds are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.

For unlisted investments where there is no organised financial market the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

For bills of exchange which are traded on organised financial markets, the net fair value has been based on the quoted market offer price at balance date adjusted for transaction costs expected to be incurred.

For other assets and liabilities the net fair value approximates their carrying value.

### (d) Interest rate risk

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

# NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2004 (continued)

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing						Non-Interest Bearing		Total	
	2004	2003	2004	2003	Within Year		1 to 5 Years		Over 5 Years		2004	2003	2004	2003
			2004	2003	2004	2003	2004	2003	2004	2003				
<b>Financial assets</b>														
Cash	5.05%	-	8,487,509	6,029,525	-	-	-	-	-	-	-	-	8,487,509	6,029,525
Receivables	7.9%	8.43%	-	-	5,313,271	8,259,331	23,969,847	55,680,979	67,856,290	10,417,574	14,763,555	4,103,946	111,902,963	78,461,830
Investments	7.6%	7.88%	-	-	-	-	830,541	172,776	7,340,851	3,744,576	-	1,040,000	8,171,392	5,057,352
<b>Total financial assets</b>			<b>8,487,509</b>	<b>6,029,525</b>	<b>12,903,463</b>	<b>8,259,331</b>	<b>24,800,388</b>	<b>55,853,755</b>	<b>7,408,707</b>	<b>14,162,150</b>	<b>14,763,555</b>	<b>5,143,946</b>	<b>128,561,864</b>	<b>89,548,707</b>
<b>Financial liabilities</b>														
Bills of exchange and promissory notes	6.25%	6.12%	-	-	21,218,000	14,000,000	-	-	-	-	-	-	21,258,000	14,000,000
Trade and sundry creditors	-	-	-	-	-	-	-	-	-	-	11,896,174	4,950,783	11,896,174	4,950,783
Lease liabilities	7.84%	6.3%	-	-	1,083,497	337,461	3,361,508	409,977	2,054,270	-	-	-	6,499,275	747,438
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>22,301,497</b>	<b>14,337,461</b>	<b>3,361,508</b>	<b>409,977</b>	<b>2,054,270</b>	<b>-</b>	<b>11,896,174</b>	<b>4,950,783</b>	<b>39,613,449</b>	<b>19,698,221</b>

# DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes:
  - (a) comply with Accounting Standards and the Corporations Act; and
  - (b) give a true and fair view of the financial position as at 30 June 2004 and performance for the year ended on that date of the Company;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Marcus Derham  
Director



Jonathan David Madgwick  
Director

Dated at Melbourne on 26 August 2004

# INDEPENDENT AUDIT REPORT

To the members of Willmott Forests Limited

## Scope

We have audited the financial report of Willmott Forests Limited and controlled entities for the financial year ended 30 June 2004 as set out on pages 19 to 41.

The Financial Report includes the consolidated financial statements of the economic entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.


Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional and statutory reporting requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and the performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

## Audit opinion

In our opinion, the financial report of Willmott Forests Limited is in accordance with:

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- (a) the Corporations Act; including:
    - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ending on that date; and
    - (ii) complying with Accounting Standards and the Corporations Regulations; and
  - (b) other mandatory professional reporting requirements.



David A Armstrong

Dated at Melbourne on 26 August 2004

Armstrong Partners  
CHARTERED ACCOUNTANTS

Level 5, 150 Albert Road, South Melbourne Victoria 3205 Australia  
Ph: (61 3) 9695 5500 Fax: (61 3) 9696 7259

Principals – David Armstrong, F.C.A. M.B.A. (Melb), Daniel Dubois C.A.  
Armstrong Partners (Aust.) Pty Ltd. A.B.N. 32 088 038 831

# ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 16 September 2004 being a date no more than six weeks before this report is sent to shareholders.



## 1. Help us to help the environment with eTree

Register your email address at [www.eTree.com.au/company](http://www.eTree.com.au/company) to receive your Annual Report and other shareholder communications from us electronically.

eTree is a Computershare initiative with Landcare Australia, giving an environmental incentive to shareholders of Australian companies to elect to receive shareholder communications electronically. Saving paper and preserving the environment.

For every email address registered to a validated shareholding a donation of up to \$2 will go directly to Landcare Australia to help a landscape restoration project in the State or Territory where each shareholder resides.

To find out more about eTree visit [www.eTree.com.au](http://www.eTree.com.au)

You will need your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) to register.

Your action helps us to help the Australian environment!

## 2. Shareholding

### (a) Distribution of shareholders number

Category (size of holding)	Ordinary
1-1000	238
1001-5000	719
5001-10,000	257
10,001-100,000	202
100,001- and over	25

(b) The names of the substantial shareholders listed in the holding company's register at 16 September 2004 are as follows

Shareholder	Number
Nanmar Pty Ltd	26,977,466
Acorn Capital Limited	3,415,396
Commonwealth Bank of Australia	2,448,338

### (c) Voting rights:

#### (i) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one (1) vote and upon a poll each share shall have one (1) vote.

#### (ii) Options

No voting rights.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (continued)

(d) 20 Largest shareholders – ordinary shares

Name	Number of Ordinary Fully Paid Shares Held	Percentage
Nanmar Pty Ltd	26,977,466	54.53%
National Nominees Ltd	3,438,601	6.95%
Sam40 Pty Ltd	1,818,182	3.68%
CitiCorp Nominees Pty Ltd	1,631,577	3.30%
MF Custodians Ltd	1,379,434	2.79%
Westpac Custodian Limited	1,051,984	2.13%
Armada Investments Pty Ltd	552,357	1.12%
Benefund Limited	445,599	0.90%
Health Super Pty Ltd	309,021	0.62%
Mr Jonathan David Madgwick	302,000	0.61%
Custodial Limited	251,945	0.51%
Dixson Trust Pty Limited	235,000	0.48%
Mr Ian Cairns	213,698	0.43%
Mr Ruskin Ramsay	200,000	0.40%
Clough Superannuation Pty Ltd	193,000	0.39%
Dr John Larking	184,000	0.37%
JP Morgan Nominees Australia Limited	160,249	0.32%
CFB Nominees Pty Ltd	157,000	0.32%
Mrs Tracey Fraser	154,563	0.31%
Mr David Alan Smith	148,848	0.30%
Total	39,804,524	80.46%

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(e) Sam40 Pty Ltd has undertaken to escrow 1,818,182 shares until 25 July 2005.

(f) The name of the Company Secretary is Mr Jonathan Madgwick.

(g) The address of the Registered Office in Australia is 249 Park Street, South Melbourne, Victoria 3205.  
This is also the address of the principal administrative office of the Company.

(h) Register of Securities is held at the following address:

Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street  
Abbotsford Victoria 3067

(i) Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.





**Willmott** Forests



Quality  
Endorsed  
Company  
ISO 9001:2015  
Standards Australia



Member  
Sustainable Forestry  
Certification  
Programme  
SFI  
Forest Management  
Standard