Agent no	12189		
Agent:	M A McGlone		
Address:	PO Box 79		
	MOUNT GAMBIER SA 5290	Ass	Req-A
		Cash	Req-P
Phone:	08 8721 5504	Proc	

Australian Securities and Investments Commission

Form 388

Copy of financial statements and reports

Corporations Act 2001
294, 295, 298-300, 307, 308, 319, 321, 322

Company Name: **AUSPINE LIMITED**
ACN OR ARBN: **004 289 730**

Reason for lodgement of statements and reports

[x] A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking. (A)

Financial year ended 30/06/2007 Date of Annual General Meeting: Tuesday 27/11/2007

Auditor Report

Where the financial statements audited? Yes [x] No [ ]

If yes: Does the auditors report (section 308) for the financial year contain a statement of:

- reasons for the auditor not being satisfied as to the matters referred to in section 307? Yes [ ] No [x]
- details of the deficiency, failure or shortcoming concerning any matter referred to in section 307? Yes [ ] No [x]

Details of current auditor

Name: KPMG Adelaide
Registration no:
Firm Name:
Address: KPMG
151 Pirie Street
ADELAIDE SA 5000

Appointment Date: 01/07/1995

Statements and reports to be attached to this form

Financial statements for the year (as per ss295(2))

Statement of Financial Performance (Profit and loss statement) for the year
Statement of Financial Position (Balance sheet) as at the end of the year
Statement of cash flows for the year.
If required by accounting standards – consolidated profit and loss statement, balance sheet and statement of cash flows.

Notes to the financial statements (as per ss295(3))

Disclosures required by the regulations
Notes required by the accounting standards
Any other information necessary to give a true and fair view (see s297)

The directors' declaration about the statements and notes (as per ss295(4))

The directors' report for the year (as per s298 to 300)

Auditor's report required under sections 308 and 314

Certification

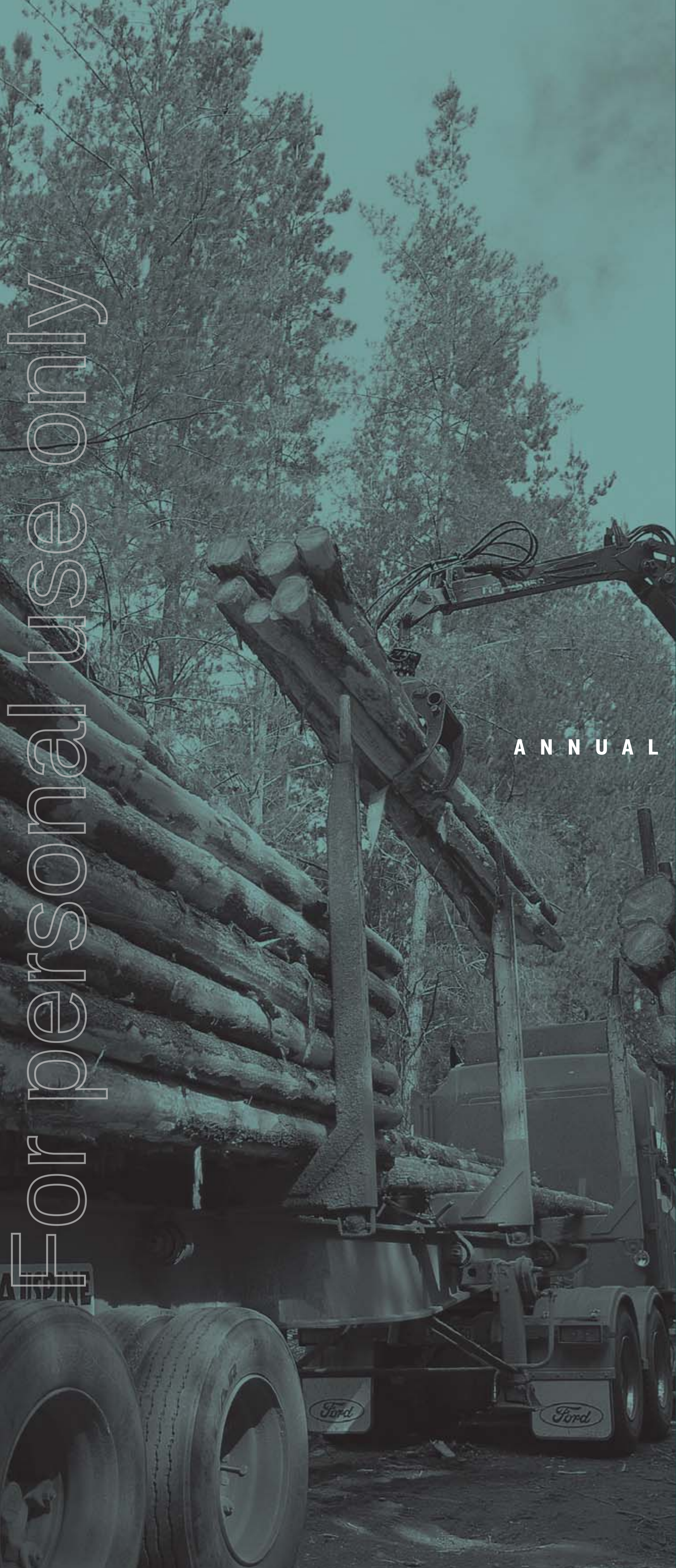
I certify that the attached documents marked (Annexure A) are a true copy of the annual reports required under section 319

Print Name:	McGlone, Michael A	Capacity:	Company Secretary
Sign here:	…………………………………………	Dated:	28 September 2007

Annexure A

of

61 pages:
Auspine Limited
2007 Annual Report



AUSPINE

Building a greener Australia

ABN 48 004 289 730

ANNUAL REPORT 2007

Building a greener Australia

ABN 48 004 289 730

CONTENTS

2007 Annual General Meeting

The Annual General Meeting of Auspine Limited shareholders will be held at 10.00am on Tuesday, 27 November 2007, at Auspine Limited, Conference Room, 20 Penola Road, Mount Gambier. *Notice of the Annual General Meeting is enclosed.*

Quality System
Quality Endorsed Company
ISO 9001 Lic 0514
SAI Global

The Directors present their report together with the financial report of Auspine Limited ("the Company") and of the Group, being the Company and its controlled entities, for the year ended 30 June 2007 and the auditor's report thereon.

1 Principal Activities

The principal activities of the Group in the course of the financial year were as follows:

- forestry plantation management and harvesting;
- manufacturing of house framing timbers, pre fabricated wall frames and trusses, engineered timber products and preserved timbers;
- wholesaling and distribution of local and imported timbers; and
- export of woodchip.

2 Dividends

Dividends paid or declared by the Company since the end of the previous financial year are outlined in *note 20* to the accounts.

3 Subsequent Events

On 15th May Gunns Limited announced it intention to make a takeover offer for Auspine Limited.

On 31 August 2007 Gunns offer closed and Gunns advise that they have acquired 60.8% of the issued shares in Auspine Limited.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

4 Likely Developments

The Group's strategic objective is to achieve greater returns from assets by adding scale and value to operations and by adding new sources of revenue.

5 Directors' Interests

The relevant interests of each Director in the share capital of the Company as notified by the Directors in accordance with *Section 205G* of the Corporations Law at the date of this report are as follows:

Director	Shares
P D Teisseire	23,500
A de Bruin	16,345,672

The Company has no options on issue.

6 Indemnity and Insurance of Officers

6.1 Deeds of Indemnity

The Company has entered into Deeds of Indemnity with current and former Directors and officers of the Company.

The indemnity provided is in accordance with *Section 199* of the Corporations Act and indemnifies the officer out of the Company's assets while the officer holds office and for seven years after the date the officer ceases to hold office.

6.2 Insurance

Since the end of the financial year, the Company has paid premiums in respect of Directors and officers liability and legal expenses insurance policies for current and former Directors and officers of the Company

The insurance premiums cover:

- liability for any act or omission as an officer except for criminal liability, liability arising out of a breach of an officer's duties or a contravention of *Section 182, 183 & 184* of the Corporations Act;
- costs incurred by the officer in defending or settling any claim or proceeding relating to such liability; and
- costs incurred by the officer in defending any criminal proceedings in which he or she is acquitted.

7 Non-Audit Services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 as it does not impact the integrity and objectivity of the Auditor and the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *"Professional independence"* as they did not involve reviewing or auditing the auditor's own work, acting in management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing risks and rewards.

A copy of the Lead Auditor's independence declaration as required under *section 307C* of the Corporations Act 2001 is included in the Directors' Report below.

Details of the amounts paid to the auditor of the Company, KPMG, and its related parties for audit and non-audit services provided during the year are set out in *note 33* to the financial statements.

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

To: the Directors of Auspine Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Gary Savage
Partner

Dated at Adelaide this 20th day of September 2007.

8 State of Affairs

During the financial year, there was no significant change in the state of affairs of the Group.

9 Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

10 Review of Results and Operations

10.1 Overview

The Auspine Limited Group (the Group) has achieved an underlying operating profit before interest and tax of $21.7 million for the year down 20.8% on the previous year. On an after tax basis, full year underlying operating profit was $10.2 million down 28.2% on the $14.3 million achieved in 2006.

Although sales revenues improved from $224 million to $234.2 million, an increase of 4.6%, the result was adversely impacted by timber discounting in the first half and lower standing timber valuation income.

Trading profit before interest and tax was $17.2 million of which $10.6 million relates to the second half, a 62% increase on the first half.

This was as achieved by stronger timber pricing and a more consistent production performance from manufacturing units.

Trading income is defined as all income other than unrealized standing timber income.

Structural softwood timber was the standout performer. Volumes in the second half were down 10% on the first half (due to seasonal influences) but gross profit was up 70% on the first half.

Including one-off write down of Tasmanian assets of $18.5 million and plantation fire losses of $1.2 million, the Group's actual result for the year was a $4.3 million after tax loss.

Both of these were included in the December 2006 half year result announced in February 2007.

Standing Timber

Standing timber income (SGARA) for the year was $9.1 million before interest and tax. Of this $0.8 million relates to the second half and $8.3 million the first half. Second half income was lower because of minimal increases in log pricing in the second half. Standing timber income realized from log sales and commissions was $4.6 million.

Woodchip export

Woodchip shipping schedules were maintained while prices also increased in the second half.

10.2 OH & S

The Group maintained its focus on workplace safety and hazard prevention in order to reduce the overall number of workplace injuries as well as rehabilitation programs to expedite return to work of injured workers.

10.3 Balance Sheet and Cash Flow

As previously reported, an impairment write down of the Tasmanian business of $18.5 million was booked in the December 2006 half. Property plant and equipment purchases during the year amounted to $14 million and plantation purchases and establishment $12.6 million. Operating cash flows were $16.4 million down 22 % on the $21.0 million achieved in 2006.

10.4 Dividends

The final dividend has been increased 20% from 10 cents per share unfranked to 12.0 cents per share unfranked as a result of the improved second half result and the favourable outlook for 2008 and beyond.

The dividend is payable on 12th October 2007 with a record date for determining entitlements of 14th September 2007.

10.5 Outlook

Continuing strong underlying demand for housing is expected to underpin strong growth in new home construction in Australia. As a consequence, softwood structural timber demand and pricing are expected to continue their growth for the remainder of 2007 through to 2009.

Woodchip export volumes are expected to be maintained at similar levels as 2007 however pricing should be firmer.

11 Board of Directors

Directors of Auspine Limited ("the Company") at any time during or since the end of the financial year were:

PAUL D. TEISSEIRE *(Independent Chairman)* – Age: 52

Mr Teisseire is a professional independent non-executive director. He spent over 20 years in private practice as a corporate lawyer specialising in business and corporate law with a special interest in corporate governance.

Based in Adelaide, he is chairman of Auspine Limited, Austin Exploration Ltd and Legend Corporation Ltd and is also non executive Director of Drake Foodmarkets and Broadcast Services Australia Ltd.

ADRIAN de BRUIN *(Managing Director)* – Age: 62

A Director since June 1984, Mr de Bruin is the Group Founder, Chief Executive Officer.

JOHN E. GAY – Age: 64

Appointed 10th September 2007.

Mr. Gay is executive Chairman of Tasmanian based public company Gunns Limited and Director of AMC Search Limited, Forest Industries Association of Tasmanian Limited, Gunns Plantations Limited and National Association of Forest Industries Limited.

ROBIN T. GRAY *B.Ag.Sci.CPM* – Age: 67

Appointed 10th September 2007.

Mr. Gray is a Director of Gunns Limited, AMC Search Limited, Agribusiness Project Management Pty Ltd and Chairman of Botanical Resources Australia Pty Ltd.

ROBIN T. J. HOLYMAN *Dip.Agric.FAICD* – Age: 69

Appointed 10th September 2007.

Mr. Holyman is a Director of Gunns Limited.

CHRISTOPHER J. NEWMAN *B.Ec* – Age: 63

Appointed 10th September 2007.

Mr. Newman is a Director of Gunns Limited, Austereo Limited, Coneco Limited, Prime Financial Group Limited and Webjet Limited

ROBERT H. GRAHAM *(Independent Director)* – Age: 65

Mr Graham was appointed a director on 30 August 2005 and has a history of executive and non-executive board positions principally on companies servicing the timber and building industries in both Australia and overseas. Mr Graham is currently a director of six small to medium private companies.

DEAN S. KERR *(Independent Director)* – Age: 60

A Director from May 1998 until retirement on 1 September 2007, Mr Kerr was Chairman of the Audit Committee and was previously Company Secretary and General Manager of Finance and Administration between 1987 and 1995 and Finance Director between 1998 and June 2001.

12 Company Secretary

MICHAEL A. McGLONE *(Company Secretary)* – Age: 54

Mr McGlone joined the Company in 1987 and has held the position of Company Secretary since 1998.

13 Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) attended by each of the Directors of the Company during the financial year were:

	Directors' Meetings		Audit Committee		Nomination Committee		Remuneration Committee	
	Attended	(Held)*	Attended	(Held)*	Attended	(Held)*	Attended	(Held)*
Mr P D Teisseire – *Independent Director*	19	19	8	8	2	2	4	4
Mr A de Bruin – *Managing Director*	19	19	-	-	2	2	4	4
Mr D S Kerr – *Independent Director*	16	19	8	8	2	2	4	4
Mr R H Graham – *Independent Director*	19	19	8	8	2	2	4	4
Total meetings	19		8		2		4	

* Number of meetings held during the period the Director held office during the year.

CORPORATE GOVERNANCE STATEMENT

14 Corporate Governance Statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the Australian Stock Exchange (ASX) Corporate Governance Council best practice recommendations, unless otherwise stated.

Corporate Governance practices are posted on the Company's website www.auspine.com.au.

14.1 Role of the Board

The Board is ultimately responsible for all matters relating to the operation of the Company. The role of the Board is to govern the Company rather than manage it.

Senior management's role is to manage the Company in accordance with the direction of the Board.

The Board has authority to determine all matters relating to the policies, practices, management and operation.

A summary of responsibilities of the Board include:

- setting and reviewing the Company vision, goals and strategy;
- approving the annual strategic plan and major operating plans;
- approving the annual budget (and long term budget);
- reviewing and providing feedback on the performance of senior management;
- reviewing the performance of the Board, the individual Directors and the committees;
- reviewing/approving the full-year and half-year financial statements, release of results to the ASX and dividend announcement;
- approving the annual report and notice of Annual General Meeting (AGM);
- reviewing performance of the Company in meeting objectives, including presentations on key areas for success, as determined by the Board;
- consider reports and recommendations from committees;
- determine all policies governing the Company and ensuring that adequate procedures are in place to manage the identified risks;
- appointing and approving the terms and conditions of senior executives;
- endorsing the terms and conditions of senior executives (reporting to the Chief Executive Officer and Chief Operations Officer) through the Remuneration Committee;
- establish and determine powers and functions of committees and reviewing those powers and functions every three years or as circumstances demand;
- approving Capital Expenditure; and
- ensuring procedures are in place so that the share market is promptly and adequately informed of all material matters.

Full details of matters reserved for the Board are posted on the Company's website.

14.2 Role of Chief Executive Officer and Senior Executives

The Chief Executive Officer's (CEO's) role is to manage the Group's day-to-day operations in order to achieve the agreed vision in accordance with the strategies, policies and programs set by the Board.

The CEO is appointed Managing Director of the Company and will not have to retire by rotation or stand for reappointment in accordance with the Constitution.

A summary of specific roles include:

- formulate, with the Board, the vision and strategy, and initiate reviews, as appropriate;
- develop actions with the management team to achieve the vision and implement the strategy;
- report to the Board regularly on the Company's progress against the vision and strategy;
- negotiate terms and conditions of appointment of senior executives to be approved by the Board;
- appointment of senior executives;
- develop succession plan and senior executive's development programs;
- approve general conditions of employment of all other staff members;
- provide strong leadership to the management team and ensure all employees understand the vision and strategy and their part in its achievement;
- ensure procedures and training are in place to provide a safe work environment;

14.2 Role of Chief Executive Officer and Senior Executives *continued*

- ensure employees are educated on legal requirements and Company policies such that compliance is the culture and a high level of ethical behaviour is expected;
- ensure all matters requiring review or approval by the Board are brought to the Board with adequate information and time to allow proper consideration of such matters;
- advise the Board of any significant change in the risk profile of the Company together with actions taken or proposed, in a timely manner;
- provide, with the Chief Financial Officer (CFO), certification to the Board on the fairness of the financial statements (annually and half-yearly) and the adequacy of the policies and procedures in place as regards management of risk, and internal controls;
- report to the Board on a monthly basis the performance of all parts of the business against budgets and last year; and
- ensure Directors are continually educated on the business of the Company, the environments in which it operates, changes in legal obligations and developments in corporate governance best practice.

Full details of Matters Reserved for the CEO and management are posted on the Company's website.

14.3 Structure of the Board

The structure of the Board is determined using the following principles:

Composition:

- A minimum of 3 Directors and a maximum of 7 Directors.
- The Board should contain a blend of experience including plantation forestry, manufacturing and financial skills.

Independence

The Board believes that the interests of the shareholders as a whole are best served if a majority of the Directors are independent.

Independence is defined in the policy on Structure of the Board, which is posted on the Company's website.

In assessing independence, the Company has established the following materiality thresholds:

- Fees paid by the Company to a Director –related adviser exceed 10% of the total fees paid to all professional advisers in the last 12 months prior to the date of assessment.
- Sales to or purchases by the Company to or from a Director-related Company/Director represent a value exceeding 5% of the total value of purchases or sales (whichever is relevant) of the Company.

Independent Chairman

The Board has determined that the Chairman will be an independent Director.

Separate Roles of Chairman and CEO

The Board has determined that there needs to be a clear division of responsibility at the head of the Company and, therefore, the roles of Chairman and CEO will not be exercised by the same person.

A description of Matters Reserved for the Chairman is posted on the Company's website.

14.4 Nomination Committee

The Company has established a Nomination Committee to carry out the following functions:

- Selection, appointment and induction of Directors and appointment and succession planning process of the Company's CEO;
- Review the membership of the Board and make recommendations to the Board on the appropriate size, skill mix, expertise and experience necessary for the conduct of the Company's activities;
- Arranging for appropriate induction of Board appointees; and
- Arranging annual performance evaluation of the Board and its members.

The members of the Nomination Committee during the year were:

P D Teisseire (Chairman);

A de Bruin;

D S Kerr; and

R H Graham.

The Nomination Committee meets as required. The Committee met twice during the year and members attendance is disclosed in the table of Directors Meetings on *page 4*.

14.4 Nomination Committee *continued*

Performance Evaluation

The Company has determined that the Directors and key executives will be equipped with the knowledge and information to properly discharge their responsibilities and that their individual and collective performance will be regularly and fairly reviewed, as follows:

Board

The Nomination Committee is responsible for arranging a review of the Boards own performance.

The Committee carries out an annual survey of Directors to:

- review the role of the Board having regard to its charter;
- assess the performance of the Board over the twelve months having regard to the strategy, objectives and the annual budget, with a view to assisting the Board to better perform its duties;
- review the Board's interaction with management; and
- review the type and timing of information provided to the Directors.

Committees

The Nomination Committee has a procedure similar to those for the Board to review and evaluate the performance of each of the committees.

An assessment is made of the performance of each committee against each charter and areas identified where improvements can be made.

Non-Executive Directors

The performance and contribution of each non-executive Director will be carried out by Chair of the Nomination Committee.

Chief Executive Officer

The Board will annually review the performance of the Chief Executive Officer. At the commencement of the year, the Board and Chief Executive Officer will agree a set of performance measures to be used in the review after the end of the year.

Consistent with these procedures evaluation of the Board and its members was completed in June 2007.

Director Education

The Group has a formal director education process to educate new Directors about director's duties, the Company's business and Board issues.

Directors regularly have the opportunity to visit operating facilities to maintain their understanding of business operations.

The Nomination Committee Charter and Director Induction and Performance Evaluation procedures are posted on the Company's website.

14.5 Access to Independent Advice

To enable the Board and its committees to fulfill their roles, it is considered appropriate that independent professional advice may be obtained at the Company's expense, after first indicating to the Board Chairman the nature of the advice to be sought and the party from whom the advice is to be sought.

The Chairman will:

- ensure that the party from whom the advice is to be sought has no conflict with the Company and that the basis of charge is reasonable; and
- approve for payment of all invoices in relation to the advice.

14.6 Code of Conduct – Directors & Senior Executives

The Board has established a Code of Conduct that has the commitment of the Directors and senior executives to ensure practices are operating that are necessary to maintain confidence in the Company's integrity, and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Under the Code of Conduct, the Directors and senior management are expected to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of office;
- use their powers to act in the best interests of the Company as a whole;
- avoid conflicts and make full disclosure of any possible conflicts of interest;
- comply with the law; and

14.6 Code of Conduct – Directors & Senior Executives *continued*

- Directors are obliged to be independent in judgement and ensure all reasonable steps are taken to be satisfied as to the soundness of Board decisions.

Full details of the Code of Conduct are posted on the Company's website.

14.7 Securities Trading Policy

In the interest of maintaining investor confidence, the Company has established a policy concerning the trading in the Company's securities relating to Directors, officers and relevant employees:

- The Company's Share Trading Policy regulates dealings by Directors, officers and employees, in shares, options and other securities issued by the Company; and
- The policy also establishes closed periods during which Company securities must not be traded. The closed periods generally apply to the period immediately preceding periodic and continuous disclosure.

Full details of the Company's Securities Trading Policy are available on the Company's website.

14.8 Audit Committee

The Audit Committee has a documented charter approved by the Board. All members must be non-executive Directors with a majority being independent. The Chairman may not be the Chairman of the Board. The Audit Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company.

The members of the Audit Committee during the year were:

D S Kerr (Chairman);

P D Teisseire; and

R H Graham.

The Audit Committee meets regularly throughout the year. The Audit Committee met eight times during the year and members attendance is disclosed in the table of Directors Meetings on page 4.

The external auditors, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary are invited to Audit Committee meetings at the discretion of the Committee.

The external auditor met with the Audit Committee during the year without management being present.

As required annually, the Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2007 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results.

The primary responsibilities of the Audit Committee are:

- perform an independent review of financial information prepared by management for external reporting;
- monitor the integrity and effectiveness of financial reporting processes;
- review, prior to release, significant ASX financial releases and significant external financial announcements;
- ensure compliance with the continuous disclosure requirements of the Corporations Act;
- review external audit arrangements and oversee and appraise the external auditor's independence, effectiveness and audit scope;
- oversee, where required, the nomination of the external auditor to the Board for approval of the appointment by shareholders;
- review internal audit arrangements and consider significant internal audit findings and management's responses and related actions;
- review and ensure implementation of legislated major accounting changes;
- monitor and assess the effectiveness of the risk management framework and ensure that there is a continuous process for the management of significant risks throughout the Company;
- ensure the establishment, implementation and monitoring of appropriate policies addressing codes of conduct for Directors and employees;
- ensure that appropriate policies are established and adequate systems are in place to identify and disclose related-party transactions;
- review and reassess the adequacy of the charter at least once every two years; and
- ensure the full Board receives minutes of meetings, is kept regularly informed on general progress and activities, and is promptly briefed on all significant matters.

The Audit Committee Charter is posted on the Company's website.

14.9 Auditor Selection, Appointment and Rotation of Lead Partner

The Company has established procedures in relation to the external auditor selection, appointment and lead partner rotation.

Full details of these procedures are posted on the Company's website.

14.10 Continuous Disclosure

The Company is committed to complying with the continuous disclosure obligations of the Corporations Act 2001 and the Listing Rules of Australian Stock Exchange Limited (ASX).

The Company has established a continuous disclosure policy designed to ensure:

- there is full and timely disclosure of the Company's activities to shareholders and the market, in accordance with the Company's legal and regulatory obligations;
- all stakeholders (including shareholders, the market and other interested parties) have an equal opportunity to receive and obtain externally available information issued by the Company; and
- all information disclosed to the Australian Stock Exchange is promptly placed on the Company's web site following receipt of confirmation from the Australian Stock Exchange.

The Company's Continuous Disclosure Policy is posted on the Company's website.

14.11 Communications Policy

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

Information is communicated to shareholders through:

- the annual report;
- disclosures made to the Australian Stock Exchange;
- notices and explanatory memoranda of Annual General Meetings (AGM);
- the AGM; and
- the home page of the Company's website, www.auspine.com.au.

The Communications Policy is posted on the Company's website.

14.12 Risk Oversight and Management

Risk Oversight

The Board oversees the establishment, implementation and review of the Company's risk management system.

Management has established and implemented policies and procedures for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group.

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the financial reporting system risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively.

Operational and other risk management compliance is reported and reviewed monthly by the Board and assessed as operating efficiently and effectively.

Risk Management & Internal Control

Comprehensive policies and procedures are established to ensure:

- ***Quality Control***
  The Company strives to ensure its products are of the highest standard and accordingly manufacturing units are accredited to ISO 9002 and measurement of relevant and tangible benchmarks thereby ensuring further improvement for the organisations overall performance.

- ***OHS&W Compliance***
  The Company strives to maintain a safe and productive workplace for all stakeholders.

  It is the designated responsibility of management at all sites to develop and implement safe systems of work and integrate them into standard operating procedure.

- ***Environmental Management***
  The Company recognizes that as an extensive and diverse organization, aspects of its operations, activities and products will have an impact on the environment. Company manufacturing sites are all licensed with relevant state environmental authorities. To ensure compliance with license conditions, sites have documented environmental improvement plans. Further, the forestry plantation management business has implemented an Environmental Management System (EMS) to assess and minimize its environmental impact and ensure compliance with its legal obligations. The EMS system, which complies with ISO14001, is integrated into existing Management Systems and subject to annual external audit.

14.12 Risk Oversight and Management *continued*

The Company has established an Environmental Steering Committee that meets monthly and guides Business Units in fulfilling their environmental obligations and to ensure that a common management approach is maintained across all sites.

The Company's environmental performance is reported regularly to the Board.

- ***Internal Control Framework***
  A comprehensive internal control system ensures inter alia that:
  - business transactions are properly authorised;
  - capital expenditures exceeding a certain size are Board approved before proceeding;
  - controls for credit, interest rate and currency risks – see *note 25* financial instruments;
  - Company assets are protected by adequate Insurance; and
  - Quality and integrity of personnel.

The Company's Process of Risk Management & Internal Compliance and Control is posted on the Company's website.

14.13 Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to executive officers and Directors themselves.

The Board has decided all Directors will be members of the Remuneration Committee.

The members of the Remuneration Committee during the year were:

P D Teisseire (Chairman);

A de Bruin;

D S Kerr; and

R H Graham.

The Remuneration Committee meets regularly throughout the year. The Remuneration Committee met four times during the year and members attendance is disclosed in the table of Directors Meetings on *page 4*.

Full details of the Remuneration Committee Charter are posted on the Company's website.

14.14 Remuneration Report – Audited

Principals of Compensation

Compensation of Directors is referred to as remuneration. Remuneration levels for Directors and executives will be set to attract and retain appropriately qualified and experienced personnel.

The Board will seek independent advice on the appropriateness and composition of remuneration packages as required.

Compensation structures will take the following into consideration:

- Capability and experience of Directors and executives;
- The ability to deliver strategic objectives and control and influence Business Unit performance; and
- The Group's earnings performance.

Senior Executives

Remuneration levels are reviewed annually by the Remuneration Committee in a process that considers individual performance, Business Unit performance and the performance of the Group as a whole.

Remuneration packages will include a mix of fixed and variable (performance based) remuneration.

The Company does not issue shares or options as part of remuneration.

Fixed Remuneration

Fixed remuneration consists of base salary on a total cost basis including Fringe Benefits Tax (FBT) related to benefits such as motor vehicles, as well as employer contributions to superannuation.

Performance Based Remuneration

Performance linked remuneration is designed to reward management personnel for meeting or exceeding their financial and personal objectives.

The Remuneration Committee will, with the Chief Executive Officer, set the Key Performance Indicators (KPIs) for key management personnel.

KPIs will generally relate to the Group, the Business Unit and the individual and will include financial, people, customer, strategic and risk measures.

14.14 Remuneration Report – Audited *continued*

Full particulars of the Company's Remuneration Policy is available on the Company's website.

Non-Executive Directors

- Non-executive Directors will receive fees in the form of superannuation and the balance in cash;
- Non-executive Directors will not participate in executive (or any) share option plans or receive bonus payments;
- Directors will be paid additional fees for work on committees;
- Total Directors' fees must not exceed $200,000 as approved by Shareholders at the 1995 Annual General Meeting;
- Non-executive Directors appointed after 29 April 2003 will not receive retirement benefits. Those in office prior to that date will receive retirement benefits in accordance with the shareholder-approved plan; and
- As at 30 June 2007 $248,000 has been provided for Directors Retirement Allowance.

Consequences of Performance on Shareholder Wealth

- dividends per shares;
- basic earnings per share;
- NTA per share;
- return on shareholder funds %; and
- total shareholder return %.

Current and previous years' data for these indicators is included under Historical Information on *page 55*.

14.14 Remuneration Report – Audited *continued*

Directors and Executive Officer Remuneration – Company and Group

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the five named Company executives, relevant group executives who receive the highest remuneration and other key management personnel are:

	Year	Short Term Salary and Fees AUD$	Short Term Non-monetary Benefits AUD$	Post Employment Superannuation AUD$	Total AUD$
Directors – Non Executives					
P D Teisseire – Chairman	**2007**	79,233	-	7,131	86,364
	2006	56,770	-	5,109	61,879
D S Kerr – Chairman Audit Committee	**2007**	54,212	-	4,879	59,091
	2006	40,170	-	3,615	43,785
R H Graham – Director appointed 30 August 2005	**2007**	50,042	-	4,504	54,546
	2006	35,080	-	3,157	38,237
Directors – Executive					
A de Bruin – Managing Director & CEO	**2007**	495,000	-	105,000	600,000
	2006	380,400	1,376	99,600	481,376
Executive					
M Liew – General Manager Auspine International Pte Ltd	**2007**	158,232	45,741	5,337	209,310
	2006	191,883	49,345	8,275	249,503
A N Jakab – Chief Operations Officer	**2007**	209,924	14,500	9,568	233,992
	2006	170,909	14,500	17,091	202,500
D S Ford – General Manager Tarpeena	**2007**	138,959	38,325	13,940	191,224
	2006	138,087	36,606	14,807	189,500
P G Lloyd – General Manager Resources	**2007**	131,983	39,888	11,879	183,750
	2006	105,154	39,069	20,777	165,000
J Panagopoulos – Chief Financial Officer	**2007**	130,053	24,075	11,705	165,833
	2006	121,697	24,075	11,728	157,500
M A Mc Glone – Company Secretary	**2007**	108,939	36,000	10,894	155,833
	2006	130,920	4,255	8,825	144,000
Steve Tucker – General Manager Strategic Planning	**2007**	132,339	14,500	11,911	158,750
	2006	119,724	14,999	10,775	145,498
Totals	**2007**	1,688,916	213,029	196,748	2,098,693
	2006	1,490,794	184,225	203,759	1,878,778

Remuneration did not include:

- other long term benefits;
- termination benefits;
- equity based remuneration (including options); or
- performance based remuneration.

14.15 Code of Conduct – the Company and Stakeholders

The Company has established a Code of conduct for all employees to guide compliance with legal and other obligations to legitimate stakeholders.

A summary of the areas covered by the Code of Conduct are as follows:

- avoiding conflicts of interest;
- avoiding Insider Trading;
- compliance with Laws;
- confidentially and privacy;
- fair and honest treatment of colleagues;
- political contributions and activities; and
- gifts and entertainment.

The Company's Code of Conduct Policy is posted on the Company's website.

Dated at Mount Gambier this 20th day of September 2007.

Signed in accordance with a resolution of the Directors.

A de Bruin
Managing Director

DIRECTORS' DECLARATION

1 In the opinion of the Directors of Auspine Limited ('the Company'):

a) the financial statements and notes and the remuneration disclosures that are contained in *section 14.14* of the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:

i giving a true and fair view of the financial position of the Company and the Group as at 30 June 2007 and of their performance for the year ended on that date; and

ii complying with Accounting Standards and the Corporations Regulations 2001;

b) the remuneration disclosures that are contained in *section 14.14 of* the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the Group Entities identified in *note 31* will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

3 The Directors have been given the declarations required by *Section 295A* of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer for the financial year ended 30 June 2007.

Dated at Mount Gambier this 20th day of September 2007.

Signed in accordance with a resolution of the Directors.

A de BRUIN
Managing Director

FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2007

AUSPINE
Building a greener Australia

ABN 48 004 289 730

Contents

INCOME STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2007

In thousands of AUD	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Revenue	6	234,199	223,984	215,810	210,607
Cost of sales		(187,503)	(173,504)	(168,441)	(159,503)
Gross profit		46,696	50,480	47,369	51,104
Other income	7	9,910	15,544	3,741	381
Freight & distribution expenses		(20,763)	(19,855)	(20,491)	(19,771)
Impairment charge	8a	(18,451)	-	(18,451)	-
Other expenses	8b	(15,312)	(18,767)	(15,070)	(19,592)
Results from operating activities		2,080	27,402	(2,902)	12,122
Financial income	10	1,534	458	1,488	596
Financial expenses	10	(8,935)	(7,763)	(8,924)	(7,754)
Net financing costs	10	(7,401)	(7,305)	(7,436)	(7,158)
Profit / (loss) before tax		(5,321)	20,097	(10,338)	4,964
Income tax (expense) / benefit	11	1,040	(5,845)	3,741	(1,445)
Profit / (loss) for the period		(4,281)	14,252	(6,597)	3,519
Basic earnings / (loss) per share	21	(7.9)	26.4		
Diluted earnings / (loss) per share	21	(7.9)	26.4		

The income statement is to be read in conjunction with notes to the financial statements set out on pages 20 to 52.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30TH JUNE 2007

In thousands of AUD	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Foreign exchange translation differences	20	85	47	-	-
Net change in fair value of available-for-sale financial assets	20	28	2	28	2
Revaluation of property and roads	20	-	38,529	-	487
Net income recognised directly in equity		113	38,578	28	489
Profit / (loss) for the period	20	(4,281)	14,252	(6,597)	3,519
Total recognised income and expense for the period		(4,168)	52,830	(6,569)	4,008
Attributable to:					
Equity holders of the parent		(4,168)	52,830	(6,569)	4,008
Total recognised income and expense for the period	20	(4,168)	52,830	(6,569)	4,008

Other movements in equity arising from transactions with owners as owners are set out in *note 20*. The amounts recognised directly in equity are disclosed net of tax, refer note 11 for tax effect.

The income statement is to be read in conjunction with notes to the financial statements set out on pages 20 to 52.

In thousands of AUD	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Assets					
Cash and cash equivalents	19	5,231	6,996	4,268	6,106
Trade and other receivables	18	34,708	35,909	211,686	194,420
Income tax receivable	16	548	1,911	913	2,226
Inventories	17	33,588	33,821	33,588	33,821
Biological assets	14	8,195	6,920	-	-
Total current assets		82,270	85,557	250,455	236,573
Receivables	18	583	590	558	561
Investments	15	10,891	5,203	56,287	71,655
Property, plant and equipment	12	289,340	299,196	56,391	60,723
Biological assets	14	206,645	203,258	1,132	1,596
Intangible assets	13	2,787	7,381	298	445
Deferred tax asset	16	-	-	3,265	-
Total non-current assets		510,246	515,628	117,931	134,980
Total assets		592,516	601,185	368,386	371,553
Liabilities					
Trade and other payables	25, 26	29,755	36,100	61,130	65,099
Interest bearing loans and borrowings	22	4,632	3,478	4,592	3,460
Employee benefits	23	3,991	4,162	3,991	4,162
Provisions	24	625	535	625	535
Total current liabilities		39,003	44,275	70,338	73,256
Trade and other payables	25, 26	57,495	62,656	-	-
Interest bearing loans and borrowings	22	146,510	131,788	146,452	131,706
Deferred tax liabilities	16	75,014	75,781	-	403
Provisions	24	1,064	1,166	1,064	1,166
Employee benefits	23	3,648	3,477	3,648	3,477
Total non-current liabilities		283,731	274,868	151,164	136,752
Total liabilities		322,734	319,143	221,502	210,008
Net assets		269,782	282,042	146,884	161,545
Equity					
Issued capital	20	93,392	93,392	93,392	93,392
Reserves	20	44,722	44,609	1,646	1,618
Retained earnings	20	131,668	144,041	51,846	66,535
Total equity	20	269,782	282,042	146,884	161,545

The income statement is to be read in conjunction with notes to the financial statements set out on pages 20 to 52.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2007

In thousands of AUD	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Cash flows from operating activities					
Cash receipts from customers		255,031	237,875	236,808	224,544
Cash paid to suppliers and employees		(232,073)	(207,321)	(226,059)	(201,092)
Cash generated from operations		22,958	30,554	10,749	23,452
Interest received	10	146	121	100	89
Interest paid		(8,346)	(8,327)	(8,337)	(8,323)
Dividends received		3	3	3	173
Income taxes paid		1,623	(1,320)	1,647	(1,290)
Net cash from operating activities	19	16,384	21,031	4,162	14,101
Cash flows from investing activities					
Payments for net assets acquired		-	(34,490)	-	-
Loans to controlled entity		-	-	-	(34,490)
Proceeds from sale of property, plant and equipment		25	72	25	72
Acquisition of property, plant and equipment		(14,040)	(8,692)	(11,234)	(7,075)
(Payments) / receipts for standing timber		(12,590)	(5,341)	(3,247)	61
Net cash from investing activities		(26,605)	(48,451)	(14,456)	(41,432)
Cash flows from financing activities					
Dividends paid		(8,121)	(7,777)	(8,121)	(7,777)
Payments of finance lease liabilities		(522)	(574)	(494)	(563)
Proceeds from borrowings		17,099	39,553	17,071	39,544
Net cash from financing activities		8,456	31,202	8,456	31,204
Net increase in cash and cash equivalents		(1,765)	3,782	(1,838)	3,873
Cash and cash equivalents at 1 July		6,996	3,214	6,106	2,233
Cash and cash equivalents at 30 June	19	5,231	6,996	4,268	6,106

The income statement is to be read in conjunction with notes to the financial statements set out on pages 20 to 52.

1 REPORTING ENTITY

Auspine Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 20 Penola Road Mount Gambier South Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the 'Group') set out in *note 31*.

The Group primarily is involved in forestry and manufacturing of forestry products, (see *note 5*).

2 BASIS OF PREPARATION

a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

The financial report was authorised for issue by the directors on 20th September 2007

b) Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- biological assets are measured at fair value less point-of-sale costs

The methods used to measure fair values are discussed further in *note 4*.

c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- *Note 13* – measurement of the recoverable amounts of cash-generating units
- *Note 14* – biological assets
- *Note 16* – utilisation of tax losses
- *Note 22* – accounting for an arrangement containing a lease
- *Note 27* – valuation of financial instruments
- *Note 28* – lease classification

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

The Group has elected to early adopt the following accounting standards and amendments:

- AASB 101 *Presentation of Financial Statements* (October 2006)
- 2007-4 *Australian Additions to, and Deletions from, IFRSs*

In the prior financial year the Group adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the reconciliation of movements in equity *note 20*.

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements report from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortised cost in foreign currency translated at the exchange rate at the end of period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

b) Foreign currency

i) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at exchange rates ruling at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

c) Financial instruments

i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions cost, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statements of cash flows.

Accounting for financial income and expense is discussed in *note 3(o)*.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see *note 3(j)(i)*), and foreign exchange gains and losses on available-for-sale monetary items (see *note 3 (b)(i)*), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

iii) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

d) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 July 2004, the date of transition to AASBs, was determined by reference to its value at that date.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality to the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The Group has applied AASB 116 revaluation model to freehold land and roads, these assets are recognised at fair value, and revalued with sufficient regularity and as a minimum at least every three years to ensure the carrying amount does not differ materially from their fair value at reporting date. The carrying amount at reporting date is based on a Directors valuation as at December 2005. The Directors valuations have

d) Property, plant and equipment
i) *Recognition and measurement* continued

been supported by independent valuations, for roads by Rushton Valuers Pty Ltd and for freehold land by Colliers International Consultancy and Valuation Pty Ltd completed June 2007.

If an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity under the the heading of revaluation reserve. The increase shall be recognised in profit or loss to the extent that it reverses a decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. The decrease is debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	2007 Years	2006 Years
Buildings	20 - 40	20 - 40
Plant and equipment	5 - 10	5 - 10
Fixtures and fittings	3 - 10	3 - 10
Roads	40	40

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

e) Intangible assets

i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to 1 January 2003

As part of its transition to AASB's, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect to acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework.

Acquisitions on or after 1 January 2003

For acquisitions on or after 1 January 2003, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Income Statements as an expense as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives are measured at cost less accumulated amortisation and impairment losses.

iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure including expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

v) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives in the current and comparative periods are as follows:

	2007 Years	2006 Years
Trademarks	indefinite	indefinite
Customer relationships	35	35
Computer software	3 - 5	3 - 5

f) Biological assets

Biological assets are measured at fair value less estimated point-of-sale costs, with any change therein recognised in profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets.

Standing timber

Standing Timber is reported at its net market value which is based on the fair value less estimated point-of-sale costs in accordance with with AASB 141 Biological Assets. The fair value less estimated point of sale costs for standing timber is determined using a discounted cash flow model. The model builds in assumptions with regard to growth discount rate and associated costs. Auspine determines the fair value less estimated point-of-sale costs based on a 'Log-Pine Index' produced and published by an external independent source. Standing timber is transferred to inventory at fair value less estimated point-of-sale costs at the date of harvest. Increases in net market value of standing timber are brought to account as other income.

g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases, and the leased assets are not recognised on the Group's Balance Sheet.

The Group adopted Interpretation 4 *Determining whether an Arrangement Contains a Lease*, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2006 consolidated financial statements.

h) Trade and other receivables

i) Trade and other receivables

Trade and other receivables are measured initially at fair value and subsequently at their amortised cost less impairment losses.

ii) Covenantholder receivables

The Group has from time to time repurchased covenants from covenantholders. The value of the covenant is the value of the associated standing timber calculated as the fair value less estimated point-of-sale costs in accordance with AASB 141 Biological Assets, consistent with the Group's standing timber assets. Any change in value is recognised in profit or loss when incurred.

iii) Staff Loans

Staff loans reported on the Balance Sheet relates to amounts provided to employees to purchase shares under a share purchase plan which operated prior to 30 June 1988. Under the scheme, the loan amount is interest free and repayable upon termination of employment. The amount of the loan is not linked to the performance of the underlying share, with the employee bearing the risks and rewards of movement in the share price.

At each reporting date, the fair value is determined, as the discounted value using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating to the estimated term of the staff loan.

i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and selling expenses.

The cost of harvested timber is its fair value less estimated point-of-sale costs at the date of harvest, determined in accordance with the accounting policy for biological assets. Once harvested, timber inventories are accounted for as normal inventories.

j) Impairment

i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale assets that are equity securities, the reversal is recognised directly in equity.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred taxes, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Employee benefits

i) Defined contribution plans

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

ii) Other long-term service benefits

The Group's net obligation in respect of long-term employee benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at reporting date which have maturity dates approximating to the terms of the Group's obligations.

k) Employee benefits *continued*

iii) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage rates that the Group expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i) Self-insurance

The Group became an exempt employer under the Workers Rehabilitation and Compensation Act 1986 on 1 September 2002. The Group is now responsible for estimating liabilities for reported and unreported SA Workers Compensation claims. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the Group expects to incur in settling the claims, discounted using a Commonwealth Government bond rate with a maturity date approximating the term of the Group's obligation. The provision was assessed by actuaries Brett & Watson Pty Ltd as at 30 June 2007. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

ii) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

m) Revenue

i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of logs and timber, transfer usually occurs when the product is received at the customer's warehouse; however for woodchip and other international shipments transfers occurs upon loading the goods onto the relevant carrier.

ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at reporting date. The stage of completion is assessed by reference to surveys of work performed.

n) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

o) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expense comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

p) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

i) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Auspine Limited.

Current tax expense / benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangements *(refer below)*. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the assets can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

ii) Nature of tax funding arrangements and tax sharing agreements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability / (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognizing an inter-entity receivable / (payable) equal in amount to the tax liability / (asset) assumed. The inter-entity receivable / (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

q) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flow on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

r) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to potential ordinary shares, which comprise convertible notes and share options granted to employees.

s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

t) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report.

- AASB 7 *Financial instruments: Disclosure* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.

t) New standards and interpretations not yet adopted *continued*

- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively). Interpretation 10 is not expected to have any impact on the financial statements for the period.
- Interpretation 12 Service Concession Arrangements addresses the accounting for service concession operators, but not grantors, for public to private service concession arrangements. Interpretation 12 will apply for the Group's 2009 financial report. The potential effect of the interpretation on the financial report has not yet been determined. At this time an entity must adopt the revised Interpretation 4 *Determining when an arrangement contains a lease* and Interpretation 129 *Service Concession Arrangements: Disclosures*.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 Service Concession Arrangements.
- AASB 2007-2 Amendments to Australian Accounting Standards also amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property and roads

The market value of property and roads is the estimated amount for which a property or road could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

ii) Intangible assets

The fair value of intangible assets is based on discounted cash flows expected to be derived from the use and eventual sale of the assets.

iii) Biological assets

The fair value of standing timber is based on the market price of the estimated recoverable wood volumes, net of harvesting costs. For standing timber plantations up to two years of age historical cost is considered to be the fair value.

iv) Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

v) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

vi) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at reporting date.

vii) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

viii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

ix) Provision for workers compensation SA

The Group became an exempt employer under the Workers Rehabilitation and Compensation Act 1986 from September 2002. The Group is now responsible for estimating liabilities for reported and unreported SA Workers Compensation claims. The provision was assessed by actuaries Brett & Watson Pty Ltd as at 30 June 2007.

x) Financial guarantees

For financial guarantee contract liabilitites, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. This method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

xi) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

xii) Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

xiii) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

xiv) Trade and other payables

For payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other payables are discounted to determine the fair value.

5 SEGMENT REPORTING

Segment information is presented in the financial statements in respect of the Group's business and geographical segments. The primary format, business segment reporting, is based on the Group's management and internal structure. Inter-segment pricing is determined on an arms length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and income, interest-bearing loans, borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises two business segments being that of forestry and forestry products and non-Australian products.

Geographical segments

The Group operates two principal geographical areas, Australia and Singapore. In Australia Forestry, manufacturing and sales offices are operated in Australia. Sales and trading offices are operated in Singapore.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Forest & Forest Products		Non-Australian Products		Elimination		Consolidation	
Segments	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Operating Revenue	228,013	227,998	18,543	12,901	(913)	(913)	245,643	239,986
Sales to customers outside the economic entity	228,013	227,998	17,126	11,988	-	-	245,139	239,986
Inter-segment sales	-	-	1,417	913	(913)	(913)	504	-
Total revenue	228,013	227,998	18,543	12,901	(913)	(913)	245,643	239,986
Segment result	(5,490)	20,014	169	83	-	-	(5,321)	20,097
Results from operating activities	(5,490)	20,014	169	83	-	-	(5,321)	20,097
Non-cash revenue	9,143	15,225	-	-	-	-	9,143	15,225
Depreciation & amortisation	8,428	8,057	38	42	-	-	8,466	8,099
External Sales by customer location								
Australia	186,851	189,293	8,100	5,670	-	-	194,951	194,963
Japan	41,162	38,705	-	-	-	-	41,162	38,705
Other	-	-	9,026	6,318	-	-	9,026	6,318
Segment assets by location								
Australia	591,156	599,982	-	-	-	-	591,156	599,982
Singapore	-	-	1,360	1,203	-	-	1,360	1,203
Total	591,156	599,982	1,360	1,203	-	-	592,516	601,185
Assets acquired by asset location								
Australia	11,818	41,993	-	-	-	-	11,818	41,993
Singapore	-	-	2	25	-	-	2	25
Total	11,818	41,993	2	25	-	-	11,820	42,018
Segment liabilities	322,371	318,750	363	393	-	-	322,734	319,143
Cash flows from operating activities								
Australia	16,514	21,161	-	-	-	-	16,514	21,161
Singapore	-	-	(130)	(130)	-	-	(130)	(130)
Total	16,514	21,161	(130)	(130)	-	-	16,384	21,031
Cash flows from investing activities								
Australia	(26,597)	(48,443)	-	-	-	-	(26,597)	(48,443)
Singapore	-	-	(8)	(8)	-	-	(8)	(8)
Total	(26,597)	(48,443)	(8)	(8)	-	-	(26,605)	(48,451)
Cash flows from financing activities								
Australia	8,381	31,127	-	-	-	-	8,381	31,127
Singapore	-	-	75	75	-	-	75	75
Total	8,381	31,127	75	75	-	-	8,456	31,202
Impairment losses	18,451	-	-	-	-	-	18,451	-
Impairment losses reversed	-	-	-	-	-	-	-	-

In thousands of AUD	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
6 REVENUE					
Sale of timber products		183,755	176,810	166,629	164,823
Sale of woodchip		47,753	44,216	47,753	44,216
Services		2,691	2,958	1,428	1,568
		234,199	223,984	215,810	210,607
7 OTHER INCOME					
Other income		689	176	741	239
Gains and losses from change in fair value of biological assets (standing timber)	14	6,222	13,833	-	-
Gains and losses from change in fair value of Covenants owned by the Group	3h(ii)	2,921	1,392	2,922	-
Net gain on disposal of property, plant and equipment		25	72	25	72
Rent income		53	71	53	70
		9,910	15,544	3,741	381
8a IMPAIRMENT CHARGE					
Impairment of goodwill	13	2,557	-	2,557	-
Impairment of trademarks	13	753	-	753	-
Impairment of customer listing	13	1,075	-	1,075	-
Impairment of computer software	13	1	-	1	-
Impairment of plant and equipment	12	14,065	-	14,065	-
		18,451	-	18,451	-
8b OTHER EXPENSES					
Operating lease rentals	28	3,735	4,157	3,732	4,157
Contract timber processing		1,528	2,497	1,487	2,462
Consumables		2,436	2,566	2,436	2,566
Plant hire		666	566	666	566
Rents, rates and taxes		2,428	1,700	2,405	1,678
Contract labour hire		2,386	5,608	2,386	5,608
Other expenses from ordinary activities		2,133	1,673	1,958	2,555
		15,312	18,767	15,070	19,592
9 PERSONNEL EXPENSES					
Wages and salaries		32,378	30,659	32,378	30,659
Contributions to defined contribution superannuation funds		3,056	2,453	3,056	2,453
Payroll tax		2,313	1,825	2,313	1,825
Increase in liability for employee benefits		5,354	4,546	5,354	4,546
		43,101	39,483	43,101	39,483
10 FINANCE INCOME AND EXPENSE					
Interest income		146	121	100	89
Dividend income		3	3	3	173
Gain on remeasurement of derivative instruments		1,385	334	1,385	334
Financial income		1,534	458	1,488	596
Interest expense		(8,935)	(7,763)	(8,924)	(7,754)
Financial expenses		(8,935)	(7,763)	(8,924)	(7,754)
Net financing costs		(7,401)	(7,305)	(7,436)	(7,158)

In thousands of AUD	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
11 INCOME TAX EXPENSE					
Recognised in the Income Statement					
Current tax expense					
Current year		(34)	667	(34)	1,717
Adjustments for prior years		(227)	(154)	(299)	-
		(261)	513	(333)	1,717
Deferred tax expense					
Origination and reversal of temporary differences	16	(779)	5,332	(3,408)	(272)
	16	(779)	5,332	(3,408)	(272)
Total income tax expense / (benefit) in Income Statement		(1,040)	5,845	(3,741)	1,445
Attributable to:					
Continuing operations		(1,040)	5,845	(3,741)	1,445
		(1,040)	5,845	(3,741)	1,445
Numerical reconciliation between tax expense and pre-tax profit					
Profit / (loss) before tax – continuing operations		(5,321)	20,097	(10,338)	4,964
Income tax using the domestic corporation tax rate of 30% (2006:30%)		(1,596)	6,029	(3,101)	1,489
Increase in income expense due to:					
Non-deductible expenses		783	20	89	6
Decrease in income expense due to:					
Tax exempt revenues		-	(50)	(430)	(50)
Under / (over) provided in prior years		(227)	(154)	(299)	-
Income tax expense / (benefit) on pre-tax net profit		(1,040)	5,845	(3,741)	1,445
Deferred tax recognised directly in equity					
Relating to revaluation to property and roads	16, 20	12	16,513	12	590
	16, 20	12	16,513	12	590

12 PROPERTY, PLANT AND EQUIPMENT

	Consolidated					The Company				
	Freehold Land	Plant equipment and site improvements	Roads	Capital work in progress	Total	Freehold Land	Plant equipment and site improvements	Roads	Capital in progress	Total
In thousands of AUD	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost										
Balance at 1 July 2005	151,778	60,338	6,069	5,148	223,333	1,826	53,851	5,246	4,113	65,036
Other acquisitions	-	-	-	32,604	32,604	-	-	-	6,309	6,309
Revaluation of assets	57,811	-	-	-	57,811	695	-	-	-	695
Transfers from capital work in progress	1,326	28,917	708	(30,951)	-	415	4,388	708	(5,511)	-
Disposals	-	(84)	-	-	(84)	-	(108)	-	-	(108)
Balance at 30 June 2006	210,915	89,171	6,777	6,801	313,664	2,936	58,131	5,954	4,911	71,932
Balance at 1 July 2006	210,915	89,171	6,777	6,801	313,664	2,936	58,131	5,954	4,911	71,932
Other acquisitions	-	-	-	11,820	11,820	1,438	1,057	-	8,519	11,014
Revaluation of assets	-	-	-	-	-	-	-	-	-	-
Transfers from capital work in progress	2,761	7,666	670	(11,097)	-	-	7,017	671	(7,688)	-
Disposals	-	(47)	-	-	(47)	-	(14)	-	-	(14)
Balance at 30 June 2007	213,676	96,790	7,447	7,524	325,437	4,374	66,191	6,625	5,742	82,932
Depreciation and impairment losses										
Balance at 1 July 2005	-	(6,234)	(421)	-	(6,655)	-	(5,384)	(383)	-	(5,767)
Depreciation charge for the year	-	(7,903)	(168)	-	(8,071)	-	(5,575)	(155)	-	(5,730)
Disposals	-	-	-	-	-	-	30	-	-	30
Balance at 30 June 2006	-	(14,137)	(589)	-	(14,726)	-	(10,929)	(538)	-	(11,467)
Balance at 1 July 2006	-	(14,137)	(589)	-	(14,726)	-	(10,929)	(538)	-	(11,467)
Depreciation charge for the year	-	(7,896)	(176)	-	(8,072)	-	(5,377)	(164)	-	(5,541)
Impairment charge	(112)	(13,935)	(19)	-	(14,066)	(5)	(10,278)	(19)	-	(10,302)
Disposals	-	-	-	-	-	-	2	-	-	2
Balance at 30 June 2007	(112)	(35,968)	(784)	-	(36,864)	(5)	(26,582)	(721)	-	(27,308)
Carrying amounts										
At 1 July 2005	151,778	54,104	5,648	5,148	216,678	1,826	48,467	4,863	4,113	59,269
At 30 June 2006	210,915	75,034	6,188	6,801	298,938	2,936	47,202	5,416	4,911	60,465
At 1 July 2006	210,915	75,034	6,188	6,801	298,938	2,936	47,202	5,416	4,911	60,465
At 30 June 2007	213,564	60,822	6,663	7,524	288,573	4,369	39,609	5,904	5,742	55,624

12 PROPERTY, PLANT AND EQUIPMENT *continued*

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2007, the net carrying amount of leased plant and machinery was $767,419 (2006: $258,242). The leased equipment secures lease obligations (see *note 22*).

In thousands of AUD	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Leased asset at cost	799	261	799	261
Accumulated amortisation	(32)	(3)	(32)	(3)
	767	258	767	258

Property, plant and equipment under construction

During the financial year ended 30 June 2007, the Group acquired assets with a cost of $14,040,000. (2006: $31,194,667, including certain assets and liabilities of Frenchpine Enterprisies Pty Ltd acquired on 27 October 2005 for $33,310,048 in cash).

Impairment loss

On 29 January 2007, the Group was advised by its primary supplier of sawlog in Tasmania that the Group's supply contract for sawlog would terminate on 31 March 2007.

The Group's Board has regarded the loss of its supply contract as a significant impairment trigger event in respect to its Tasmanian sawmills. Whilst the Board continues to examine its options with respect to its Tasmanian operations, at reporting date the Group had signed contracts for future log supply with the Tasmanian Government, Rayonier and Private Plantation Growers. Based on this information an impairment charge on non-current assets has been recognised as follows:

in thousands of AUD	Tasmanian Assets Carrying amount $'000	Impairment $'000	Recoverable amount $'000
Property Plant and equipment	33,666	(14,065)	19,601
Goodwill	2,557	(2,557)	-
Trademarks	1,786	(753)	1,033
Customer listing	2,551	(1,075)	1,476
Computer software	3	(1)	2
	40,563	(18,451)	22,112

Revaluation

During the financial year ended 30 June 2006, the Directors revalued freehold land by $57,811,000. The fair value carrying amount is supported by an independent valuation by Colliers International Consultancy and Valuation Pty Ltd completed June 2007. The revalued amount has been tax affected by $16,513,000 refer *note 16*, and the net amount of $38,529,000 has been recognised directly into equity, refer *note 20*.

13 INTANGIBLE ASSETS

	Consolidated					The Company				
	Goodwill	Trademarks	Customer List	Computer Software	Total	Goodwill	Trademarks	Customer List	Computer Software	Total
In thousands of AUD	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost										
Balance at 1 July 2005	-	-	-	632	632	-	-	-	632	632
Other acquisitions	-	-	-	164	164	-	-	-	160	160
Acquisitions through business combinations	2,557	1,786	2,639	-	6,982	-	-	-	-	-
Balance at 30 June 2006	2,557	1,786	2,639	796	7,778	-	-	-	792	792
Balance at 1 July 2006	2,557	1,786	2,639	796	7,778	-	-	-	792	792
Other acquisitions	-	-	-	68	68	-	-	-	67	67
Balance at 30 June 2007	2,557	1,786	2,639	864	7,846	-	-	-	859	859
Amortisation and impairment losses										
Balance at 1 July 2005	-	-	-	(160)	(160)	-	-	-	(160)	(160)
Amortisation for the year	-	-	(50)	(187)	(237)	-	-	-	(187)	(187)
Balance at 30 June 2006	-	-	(50)	(347)	(397)	-	-	-	(347)	(347)
Balance at 1 July 2006	-	-	(50)	(347)	(397)	-	-	-	(347)	(347)
Amortisation for the year	-	-	(60)	(216)	(276)	-	-	-	(214)	(214)
impairment charge	(2,557)	(753)	(1,075)	(1)	(4,386)	-	-	-	-	-
Balance at 30 June 2007	(2,557)	(753)	(1,185)	(564)	(5,059)	-	-	-	(561)	(561)
Carrying amounts										
At 1 July 2005	-	-	-	472	472	-	-	-	472	472
At 30 June 2006	2,557	1,786	2,589	449	7,381	-	-	-	445	445
At 1 July 2006	2,557	1,786	2,589	449	7,381	-	-	-	445	445
At 30 June 2007	-	1,033	1,454	300	2,787	-	-	-	298	298

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and 6-year business plan. Cash flows for a futher 11-year period were extrapolated using a constant growth rate. Management believes that this forecast forecast period was justified due to the long-term nature of the forestry business;
- Revenue is based on current actual prices with reductions of 3.5% thereafter, management believes this reflects the long term cyclical nature of the timber industry;
- A growth rate was assumed to be 1.8 percent per annum, based on long-term trends adjusted annually for actual experience;
- Labour costs was assumed to increase by 3.5 percent per annum, being in line with current EBA agreements;
- Frieght costs was assumed to increase by 2.75 percent per annum, being in line with appreciating fuel prices; and
- A nominal after tax discount rate of 10.9% was applied based on the Company's current weighted average cost of capital.

The values assigned to the key assumptions represent management's assessment of future trends in the forestry industry and are based in both external sources and internal sources (historical data).

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate would have increased the impairment loss by $1.9 million; and
- A 5 percent decrease in future planned revenues would have increased the impairment loss by $7.3 million.

14 BIOLOGICAL ASSETS

At 30 June 2007, standing timber comprised of approximately 40,200 (2006: 39,600) hectares of pine tree plantations, which range from newly established plantations to plantations that are 28 years old (2006: 28 years old). During the financial year ended 30 June 2007, the Group harvested approximately 212,000 (2006: 296,000) cubic meters of roundwood, which had a fair value less estimated point-of-sale costs of $3,913,000 (2006: $5,439,000) at the date of harvest.

a) Increment in NMV

The increment in the net market value of trees recognised as revenue is determined as the difference between the net market value of trees at the beginning of the financial year, add back the value of trees harvested, less the cost of ongoing plantation management and less the value of plantations acquired and planted during the financial year.

b) The NMV of harvested logs

The net market value of harvested logs recognised as an expense, is the Group's interest in the net market value of logs harvested during the financial year less the Group's portion of harvest costs.

While an intermittently active market exists for small pine plantations, there is no suitable market evidence available to value the Group's plantations by reference to equivalent sales. Consequently, the best indicator of net market value is the net present value of future cash flows.

The net market value of the standing timber is a directors' valuation based on net present value of future cash flows. The significant assumptions made in determining the net market value of standing timber in the current and previous reporting period are:

a) Plantations are valued based on expected volume of logs that can be obtained from existing stands, given current management strategies;
b) Values are applied to logs harvested based substantially on commercial rates;
c) Values applied to chip harvested are based on current export prices net of harvest and process costs;
d) The cost of growing the trees is deducted in determining the net cash flows;
e) Costs associated with the land on which plantations are grown are deducted in determining net cash flows. These include rent (or notional rent where land is owned), rates, and land tax;
f) The valuation assumes the continuation of existing practices with regard to silviculture and harvesting;
g) A before tax discount rate of 10% per annum is applied to the estimated cash flows. This discount rate takes into account the risk associated with future cash flows;
h) The Group's interest in future cash flows from plantations subject to a financial interest by other parties and managed by the Group are included in the valuation where that interest is virtually certain; and
i) Inflation has been estimated to continue at 2%.

The Group is exposed to a number of risks related to its pine tree plantations.

Regulatory and environmental risks

The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

Management has established an environmental committee and performs regular reviews to identify environmental risks to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The Group is a fully vertically intergrated forestry operation and aligns its harvest volume to the Group's manufacturing facilities.

The Group is exposed to risks arising from fluctuations in the price and sales volume of pine. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with its processing facilities.

Climate and other risks

The Group's pine plantations are exposed to the risk of damage from extreme seasonal weather conditions, climatic changes, pests and diseases, forest fires, wind and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including an extensive fire protection system with regional inter-organisational links and regular forest health inspections and co-operative industry wide pest and disease control strategies. Two successful biological regimes against the Sirex Wood Wasp and Ips Bark Beetle are maintained, along with advanced research into the potential bio-control of the Monterey Pine Aphid. The Group is self-insured against natural disasters such as fire, floods and hurricanes.

14 BIOLOGICAL ASSETS *continued*

In thousands of AUD	Consolidated Standing Timber $'000	The Company Standing Timber $'000
Balance 1 July 2005		
At historical cost	7,082	1,658
At net market value	192,037	-
	199,119	1,658
Increases due to purchases	537	209
Increases due to capitalised establishment costs	3,128	335
Increases due to capitalised maintenance costs	2,292	-
Decrease due to harvested timber	(5,439)	-
Decrease due to commissions from investor plantations	(594)	-
Transfer to investment in non-related entities	(606)	(606)
Change in fair value less estimated point-of-sale costs	13,833	-
Change in fair value less estimated point-of-sale costs plantations subject to covenantholders	(2,092)	-
Balance at 30 June 2006	210,178	1,596
Non-current	203,258	1,596
Current	6,920	-
	210,178	1,596
Balance 1 July 2006		
At historical cost	10,652	1,596
At net market value	199,526	-
	210,178	1,596
Increases due to purchases	7,562	3,247
Increases due to capitalised establishment costs	2,578	-
Increases due to capitalised maintenance costs	2,450	-
Decrease due to harvested timber	(3,913)	-
Decrease due to commissions from investor plantations	(690)	-
Transfer to related entities	-	(464)
Transfer to investment in non-related entities	(3,247)	(3,247)
Change in fair value less estimated point-of-sale costs	6,222	-
Change in fair value less estimated point-of-sale costs plantations subject to covenantholders	(6,300)	-
Balance at 30 June 2007	214,840	1,132
Non-current	206,645	1,132
Current	8,195	-
	214,840	1,132

In thousands of AUD	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
15 OTHER INVESTMENTS				
Non-current investments				
Listed equity securities available for sale	96	37	75	37
Investments in controlled entities at cost	-	-	45,417	66,437
Investments in covenants owned by the Group at fair value	10,795	5,166	10,795	5,181
	10,891	5,203	56,287	71,655

There was no impairment of investments for the financial year ended 30 June 2007 (2006: nil).

Covenants owned by the Group represent the Group's interest in the covenantholder liability disclosed in *note 25*.

16 TAX ASSETS AND LIABILITIES

CURRENT TAX ASSETS AND LIABILITIES

The current tax asset for the Group of $548,000 (2006: $1,911,000) and for the Company of $913,000 (2006: $2,226,000) represent the amount of income taxes recoverable in respect of prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority. In accordance with tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current liability (asset) initially recognised by the members in the tax-consolidated group.

	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Current tax asset				
Income tax receivable	548	1,911	913	2,226

DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	Assets 2007 $'000	Assets 2006 $'000	Liabilities 2007 $'000	Liabilities 2006 $'000	Net 2007 $'000	Net 2006 $'000
Property	-	-	43,753	43,787	43,753	43,787
Site improvements, plant equipment and roads	-	-	(594)	3,105	(594)	3,105
Biological assets – Standing timber	-	-	33,817	31,588	33,817	31,588
Other investments	-	-	3,261	1,554	3,261	1,554
Inventories	(280)	(1,378)	(783)	169	(1,063)	(1,209)
Interest-bearing loans and borrowings	-	-	(72)	(82)	(72)	(82)
Employee benefits	(509)	(483)	-	-	(509)	(483)
Provisions	(1,831)	(1,865)	-	-	(1,831)	(1,865)
Other items	(240)	(639)	(1,508)	25	(1,748)	(614)
Tax (assets) / liabilities	(2,860)	(4,365)	77,874	80,146	75,014	75,781
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	(2,860)	(4,365)	77,874	80,146	75,014	75,781

16 DEFERRED TAX ASSETS AND LIABILITIES *continued*

In thousands of AUD	Assets 2007 $'000	Assets 2006 $'000	Liabilities 2007 $'000	Liabilities 2006 $'000	Net 2007 $'000	Net 2006 $'000
Property	-	-	153	153	153	153
Site improvements, plant equipment and roads	-	-	(89)	2,955	(89)	2,955
Biological assets – Standing timber	-	-	2,057	-	2,057	-
Other investments	-	-	1,559	1,547	1,559	1,547
Inventories	(1,343)	(1,377)	280	169	(1,063)	(1,208)
Interest-bearing loans and borrowings	(72)	(82)	-	-	(72)	(82)
Employee benefits	(509)	(57)	-	-	(509)	(57)
Provisions	(1,865)	(2,291)	-	-	(1,865)	(2,291)
Other items	(3,436)	(639)	-	25	(3,436)	(614)
Tax (assets) / liabilities	(7,225)	(4,446)	3,960	4,849	(3,265)	403
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	(7,225)	(4,446)	3,960	4,849	(3,265)	403

Movement in temporary differences during the year

In thousands of AUD	Consolidated Balance 1 July 05 $'000	Consolidated Recognised in income $'000	Consolidated Recognised in equity $'000	Consolidated Balance 30 June 06 $'000	The Company Balance 1 July 05 $'000	The Company Recognised in income $'000	The Company Recognised in equity $'000	The Company Balance 30 June 06 $'000
Property	27,274	-	16,513	43,787	(55)	-	208	153
Site improvements, plant equipment and roads	2,680	425	-	3,105	2,996	(40)	-	2,956
Biological assets – Standing timber	26,829	4,759	-	31,588	-	-	-	-
Other investments	1,178	376	-	1,554	1,169	-	378	1,547
Inventories	(1,156)	(53)	-	(1,209)	(1,156)	(53)	-	(1,209)
Interest-bearing loans and borrowings	(86)	4	-	(82)	(86)	-	4	(82)
Employee benefits	(73)	16	-	(57)	(73)	16	-	(57)
Provisions	(1,870)	5	-	(1,865)	(1,870)	5	-	(1,865)
Other items	(414)	(200)	-	(614)	(414)	(200)	-	(614)
	54,362	5,332	16,513	76,207	511	(272)	590	829
Employee benefits associated with the Frenchpine purchase	-	-	-	(426)	-	-	-	(426)
Total	54,362	5,332	16,513	75,781	511	(272)	590	403

In thousands of AUD	Consolidated Balance 1 July 06 $'000	Consolidated Recognised in income $'000	Consolidated Recognised in equity $'000	Consolidated Balance 30 June 07 $'000	The Company Balance 1 July 06 $'000	The Company Recognised in income $'000	The Company Recognised in equity $'000	The Company Balance 30 June 07 $'000
Property	43,787	(34)	-	43,753	153	-	-	153
Site improvements, plant equipment and roads	3,105	(3,699)	-	(594)	2,956	(3,045)	-	(89)
Biological assets – Standing timber	31,588	2,229	-	33,817	-	2,057	-	2,057
Other investments	1,554	1,695	12	3,261	1,547	-	12	1,559
Inventories	(1,209)	146	-	(1,063)	(1,209)	146	-	(1,063)
Interest-bearing loans and borrowings	(82)	10	-	(72)	(82)	10	-	(72)
Employee benefits	(483)	(26)	-	(509)	(483)	(26)	-	(509)
Provisions	(1,865)	34	-	(1,831)	(1,865)	-	-	(1,865)
Other items	(614)	(1,134)	-	(1,748)	(614)	(2,550)	-	(3,164)
	75,781	(779)	12	75,014	403	(3,408)	12	(2,993)
Transfer of Deferred Tax Liability on Deregistration of fully owned subsidiaries.	-	-	-	-	-	(272)	-	(272)
Total	75,781	(779)	12	75,014	403	(3,680)	12	(3,265)

	Consolidated		The Company	
	2007	2006	2007	2006
In thousands of AUD	$'000	$'000	$'000	$'000
17 INVENTORIES				
Raw materials and consumables	4,539	4,455	4,539	4,455
Work in progress				
At cost	6,556	5,382	6,556	5,382
At net realisable value	1,146	1,140	1,146	1,140
Finished goods				
At cost	19,028	18,116	19,028	18,116
At net realisable value	2,319	4,728	2,319	4,728
	33,588	33,821	33,588	33,821
18 TRADE AND OTHER RECEIVABLES				
Current				
Trade receivables	24,506	26,614	24,110	26,254
Less provision for impairment	(52)	(5)	(52)	(5)
	24,454	26,609	24,058	26,249
Fair value derivatives	949	44	949	44
Other trade receivables and prepayments	8,652	8,403	7,107	6,480
Finance receivables and covenant debtors	653	853	653	853
Receivables due from controlled entities	-	-	178,919	160,794
	34,708	35,909	211,686	194,420
Non-current				
Staff loans	558	561	558	561
Trustee maintenance accounts	25	29	-	-
	583	590	558	561
19a CASH AND CASH EQUIVALENTS				
Bank balances	5,231	6,996	4,268	6,106
Call deposits	-	-	-	-
Cash and cash equivalents	5,231	6,996	4,268	6,106
Bank overdrafts repayable on demand	-	-	-	-
Cash and cash equivalents in the Statement of cash flows	5,231	6,996	4,268	6,106

In thousands of AUD	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
19b RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) for the period		(4,281)	14,252	(6,597)	3,519
Adjustments for:					
Depreciation	12	8,072	8,071	5,541	5,767
Amortisation	13	276	237	214	187
Impairment of assets	12, 13	18,451	-	18,451	-
Other income	7	(689)	(176)	(741)	(70)
Rental income	7	(53)	(71)	(53)	(70)
Change in value of biological assets	14	(6,222)	(13,833)	-	-
Investment income	10	(1,534)	(458)	(1,488)	(596)
Interest expense	10	8,935	7,763	8,924	7,754
Dividends from controlled entities		-	-	-	(169)
Net gain on disposal of property, plant and equipment	7	(25)	(72)	(25)	(72)
Income tax expense	11	(1,040)	5,845	(3,741)	1,445
Operating profit before changes in working capital and provisions		21,890	21,558	20,485	17,695
(Increase)/decrease in biological assets		(1,560)	2,168	-	-
(Increase)/decrease in trade and other receivables		1,207	(3,944)	(17,430)	(7,113)
(Increase)/decrease in inventories		235	(1,028)	233	(1,029)
(Decrease)/increase in trade and other payables		1,335	10,179	7,564	12,416
(Decrease)/increase in provisions and employee benefits		-	1,745	-	1,745
		23,107	30,678	10,852	23,714
Interest paid		(8,346)	(8,327)	(8,337)	(8,323)
Income taxes paid		1,623	(1,320)	1,647	(1,290)
Net cash from operating activities		16,384	21,031	4,162	14,101

20 CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

in thousands of AUD	Note	Consolidated Share Capital $'000	Translation Reserve $'000	Fair Value Reserve $'000	Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2005		93,392	(196)	-	6,207	138,388	237,791
Effect of change in accounting policy		-	-	20	-	(777)	(757)
Balance 1 July restated		93,392	(196)	20	6,207	137,611	237,034
Total recognised income and expense		-	47	2	38,529	14,252	52,830
Dividends to shareholders		-	-	-	-	(7,822)	(7,822)
Balance as at 30 June 2006		93,392	(149)	22	44,736	144,041	282,042
Balance at 1 July 2006		93,392	(149)	22	44,736	144,041	282,042
Total recognised income and expense		-	85	28	-	(4,281)	(4,168)
Dividends to shareholders		-	-	-	-	(8,092)	(8,092)
Balance as at 30 June 2007		93,392	(64)	50	44,736	131,668	269,782

20 CAPITAL AND RESERVES *continued*

Reconciliation of movement in capital and reserves

	The Company					
In thousands of AUD	**Share Capital $'000**	**Translation Reserve $'000**	**Fair Value Reserve $'000**	**Revaluation Reserve $'000**	**Retained Earnings $'000**	**Total $'000**
Balance at 1 July 2005	93,392	-	-	1,109	71,615	166,116
Effect of change in accounting policy	-	-	20	-	(777)	(757)
Balance 1 July restated	93,392	-	20	1,109	70,838	165,359
Total recognised income and expense	-	-	2	487	3,519	4,008
Dividends to shareholders	-	-	-	-	(7,822)	(7,822)
Balance as at 30 June 2006	93,392	-	22	1,596	66,535	161,545
Balance at 1 July 2006	93,392	-	22	1,596	66,535	161,545
Total recognised income and expense	-	-	28	-	(6,597)	(6,569)
Dividends to shareholders	-	-	-	-	(8,092)	(8,092)
Balance as at 30 June 2007	93,392	-	50	1,596	51,846	146,884

Share capital

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The Group recorded the following amounts within shareholders equity as a result of fully paid ordinary shares.

For the financial year ended 30 June 2007

	Consolidated Share Capital		The Company Share Capital	
In thousands of AUD	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Fully paid ordinary shares	93,392	93,392	93,392	93,392

	Consolidated Ordinary Shares		The Company Ordinary Shares	
In thousands of Shares	**2007**	**2006**	**2007**	**2006**
Issuance of ordinary shares	53,947	53,947	53,947	53,947

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Revaluation reserve

The revaluation reserve relates to land and roads measured at fair value in accordance with the applicable Australian Accounting Standards.

20 CAPITAL AND RESERVES *continued*

Dividends

Dividends recognised in the current year by the Company are:

In thousands of AUD	Cents per share $'000	Total amount $'000	Franked/ Unfranked $'000	Date of payment $'000
2007				
Interim 2007 ordinary	5.0	2,697	unfranked	17 May 2007
Final 2006 ordinary	10.0	5,395	unfranked	11 October 2006
		8,092		
2006				
Interim 2006 ordinary	9.0	4,855	unfranked	19 April 2006
Final 2005 ordinary	5.5	2,967	unfranked	03 November 2005
		7,822		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

After reporting date the following dividends were proposed by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

In thousands of AUD	Cents per share $'000	Total amount $'000	Franked/ Unfranked $'000	Date of payment $'000
Final ordinary	12.0	6,474	unfranked	12 October 2007
		6,474		

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 30 June 2007 and will be recognised in subsequent financial reports.

In thousands of AUD	The Company 2007 $'000	2006 $'000
Dividend franking account 30 per cent franking credits available to shareholders of Auspine Limited for subsequent financial years	139	1,786

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

a) franking credits that will arise from the payment of the current tax liabilities;
b) franking credits that will arise from the payment of dividends recognised as a liability at the year end;
c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
d) franking credits that the entity may be prevented from distributing in subsequent years.

The to utilise the franking credits is dependent upon there being sufficent available profits to declared dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed no franking account benefits due to a income tax refund (2006: $1,786,000 franking credits).

In thousands of AUD	Consolidated 2007 $'000	2006 $'000
21 EARNINGS PER SHARE		
Basic earnings per share		
The calculation of basic loss per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of $4,281,000 (2006: $14,252,000 profit) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 53,947,223 (2006: 53,947,223) calculated as follows:		
Profit attributable to ordinary shareholders		
Profit/(loss) for the period	(4,281)	14,252
Profit/(loss) attributable to ordinary shareholders	(4,281)	14,252

In thousands of shares	Consolidated 2007 $'000	2006 $'000
Weighted average number of ordinary shares		
Issued ordinary shares 1 July	53,947	53,947
Weighted average number of ordinary shares 30 June	53,947	53,947
Diluted earnings per share		
The calculation of diluted loss per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of $4,281,000 (2006: $14,252,000 profit) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 53,947,223 (2006: 53,947,223) calculated as follows:		
Weighted average number of ordinary shares (diluted)		
Issued ordinary shares 1 July	53,947	53,947
Weighted average number of ordinary shares (diluted) at 30 June	53,947	53,947

No shares or options were issued, converted or called during the reporting period (2006: nil).

In AUD	Consolidated 2007 $	2006 $
Earnings per share		
Basic earnings per share		
From continuing operations	(7.9)	26.4
Diluted earnings per share		
From continuing operations	(7.9)	26.4

In thousands of AUD	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
22 LOANS AND BORROWINGS				
Non-current liabilities				
Secured bank loans	145,765	131,450	145,765	131,450
Finance lease liabilities	745	338	687	256
	146,510	131,788	146,452	131,706
Current liabilities				
Secured bank loans	4,500	3,000	4,500	3,000
Current portion of finance lease liabilities	132	478	92	460
	4,632	3,478	4,592	3,460

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

For more information about the consolidated entity's exposure to interest rate risk see *note 27*.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Consolidated

In thousands of AUD	Currency	Nominal interest rate	Year of maturity	30 June 2007 Face value	Carrying amount	30 June 2006 Face value	Carrying amount
Secured bank loan	AUD	6.74%	2008	32,000	32,000	32,000	32,000
Secured bank loan	AUD	6.74%	2010	21,100	21,100	24,100	24,100
Secured bank loan	AUD	6.74%	2014	30,500	30,500	35,000	35,000
Secured bank loan	AUD	6.74%	2007	4,500	4,500	3,000	3,000
Secured bank loan	AUD	5.16%	2013	1,157	1,157	1,350	1,350
Secured bank loan	AUD	6.74%	2008	5,000	5,000	5,000	5,000
Secured bank loan	AUD	6.74%	2013	2,008	2,008	-	-
Secured bank loan	AUD	6.64%	2008	54,000	54,000	34,000	34,000
				150,265	150,265	134,450	134,450

The Company

In thousands of AUD	Currency	Nominal interest rate	Year of maturity	30 June 2007 Face value	Carrying amount	30 June 2006 Face value	Carrying amount
Secured bank loan	AUD	6.74%	2008	32,000	32,000	32,000	32,000
Secured bank loan	AUD	6.74%	2010	21,100	21,100	24,100	24,100
Secured bank loan	AUD	6.74%	2014	30,500	30,500	35,000	35,000
Secured bank loan	AUD	6.74%	2007	4,500	4,500	3,000	3,000
Secured bank loan	AUD	5.16%	2013	1,157	1,157	1,350	1,350
Secured bank loan	AUD	6.74%	2008	5,000	5,000	5,000	5,000
Secured bank loan	AUD	6.74%	2013	2,008	2,008	-	-
Secured bank loan	AUD	6.64%	2008	54,000	54,000	34,000	34,000
				150,265	150,265	134,450	134,450

22 LOANS AND BORROWINGS *continued*

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Consolidated Minimum lease payments 2007	Interest 2007	Principal 2007	Minimum lease payments 2006	Interest 2006	Principal 2006
Less than one year	166	57	109	509	30	479
Between one and five years	897	152	745	388	64	324
More than five years	-	-	-	14	1	13
	1,063	209	854	911	95	816

The Group leases production plant and equipment and motor vehicles under finance leases expiring from one to six years. Finance leases have been structured so that there is no residual payment thereby full ownership passes to the Group at the end of the lease term.

Finance lease liabilities of the Company are payable as follows:

In thousands of AUD	The Company Minimum lease payments 2007	Interest 2007	Principal 2007	Minimum lease payments 2006	Interest 2006	Principal 2006
Less than one year	147	55	92	489	22	467
Between one and five years	830	143	687	306	57	249
More than five years	-	-	-	-	-	-
	977	198	779	795	79	716

The Company leases production plant and equipment under finance leases expiring from one to five years. Finance leases have been structured so that there is no residual payment thereby full ownership passes to the Company at the end of the lease term.

23 EMPLOYEE BENEFITS

In thousands of AUD	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
Current				
Liability for annual leave	2,591	2,523	2,591	2,523
Liability for long service leave	741	698	741	698
Liability for sick leave	383	662	383	662
Liability for other employee benefits	276	279	276	279
Total current employee benefits	3,991	4,162	3,991	4,162
Non-current				
Liability for long service leave	3,648	3,477	3,648	3,477
Total non-current employee benefits	3,648	3,477	3,648	3,477

24 PROVISIONS

In thousands of AUD	Self Insurance $'000	Dividend $'000	Total Provision $'000
Consolidated			
Balance at 1 July 2006	1,656	45	1,701
Provisions used during the year	(921)	(29)	(950)
Provisions made during the year	938	-	938
Balance at 30 June 2007	1,673	16	1,689
Current	609	16	625
Non-current	1,064	-	1,064
The Company			
Balance at 1 July 2006	1,656	45	1,701
Provisions used during the year	(921)	(29)	(950)
Provisions made during the year	938	-	938
Balance at 30 June 2007	1,673	16	1,689
Current	609	16	625
Non-current	1,064	-	1,064

Self insurance

The Group became an exempt employer under the Workers Rehabilitation and Compensation Act 1986 on September 2002. The Group is now responsible for estimating liabilities for reported and unreported SA Workers Compensation claims. The provision was assessed by actuaries Brett & Watson Pty Ltd as at 30 June 2007.

Dividend

The provision for dividend relates to the undistributed amount of dividend declared in a previous reporting period.

25 TRADE AND OTHER PAYABLES

	Consolidated		The Company	
In thousands of AUD	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Trade payables and accrued expenses	29,334	35,187	22,722	26,223
Fair value derivatives	-	500	-	500
Loans to controlled entities	-	-	38,353	38,353
	29,334	35,687	61,075	65,076
Non-current				
Covenantholder liability for standing timber interest	43,164	49,465	-	-
Covenantholder liability for land interest	9,974	9,974	-	-
Accrued covenantholder distribution	4,328	3,125	-	-
	57,466	62,564	-	-

The Group has historically issued Covenants entitling the holders to a contractual interest in a revenue stream based on yields from specific forestry developments. Some Covenantholders also invested in the movement of land values (for land owned by the Group and used for forest development under the Covenant schemes) whereby an amount equivalent to the market value of the land is payable upon clearfell of the forest. The net present value of amounts payable is included as a liability for Covenantholder standing timber and land interest.

In thousands of AUD	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
26 OTHER LIABILITIES				
Current				
Unearned development income	421	413	55	23
Total current other liabilities	421	413	55	23
Non-current				
Unearned development income	29	92	-	-
Total non-current liabilities	29	92	-	-

Agreements have been entered into by controlled entities with client growers to establish and / or develop their trees over a number of years. The unearned development income recognises the obligation of the Group to maintain investors' trees under the agreements entered into.

Payments received in advance were initially credited to the unearned development income between the estimated obligation to maintain investors' trees and advances paid.

27 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring a credit limit. The Group does not require collateral in respect of financial assets.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Balance Sheets.

Interest rate risk

Hedging

The Group has entered into interest rate swap agreements denominated in Australian dollars, under which it substitutes floating rate borrowings for fixed rates. The swaps currently in place, cover approximately 40 per cent of the bank bills outstanding. The swaps mature over the next three years and have swap rates ranging from 5.87 per cent to 6.13 per cent. At reporting date the Group had interest rate swaps with a notional contract amount of $60,500,000 (2006: $72,000,000).

The Group classifies interest rate swaps as cash flow hedges and states them at fair value. The fair value of swaps at 1 July 2005 was adjusted against the opening balance of retained earnings at that date.

The net fair value of the Group's and Company's swaps at 30 June 2007 comprising of assets of $948,703 (2006: $nil) and liabilities of $nil (2006: $499,501). Theses amounts were recognised as fair value derivatives.

27 FINANCIAL INSTRUMENTS *continued*

Effective interest rates and repricing analyisis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated — **2007**

In thousands of AUD	Note	Effective Interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents	19	6.250%	5,231	5,231	-	-	-	-
Unsecured bond issues:								
AUD floating rate bonds	27	6.423%	(4,000)	(4,000)	-	-	-	-
Effect of interest rate swap		0.333%	-	4,000	(4,000)	-	-	-
AUD floating rate bonds	27	6.423%	(4,000)	(4,000)	-	-	-	-
Effect of interest rate swap		0.293%	-	4,000	-	(4,000)	-	-
AUD floating rate bonds	27	6.475%	(52,500)	(52,500)	-	-	-	-
Effect of interest rate swap		0.605%	-	52,500	-	-	(52,500)	-
Finance lease liabilities *	22	7.050%	1,063	83	83	352	545	-
Balance as at 30 June 2007			(54,206)	5,314	(3,917)	(3,648)	(51,955)	-

* These assets / liabilities bear interest at a fixed rate.

Consolidated — **2006**

In thousands of AUD	Note	Effective Interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents	19	5.500%	6,996	6,996	-	-	-	-
Unsecured bond issues:								
AUD floating rate bonds	27	6.028%	(4,000)	(4,000)	-	-	-	-
Effect of interest rate swap		(0.022%)	-	4,000	(4,000)	-	-	-
AUD floating rate bonds	27	6.028%	(4,000)	(4,000)	-	-	-	-
Effect of interest rate swap		(0.062%)	-	4,000	-	(4,000)	-	-
AUD floating rate bonds	27	6.028%	(4,000)	(4,000)	-	-	-	-
Effect of interest rate swap		(0.102%)	-	4,000	-	-	(4,000)	-
AUD floating rate bonds	27	5.993%	(60,000)	(60,000)	-	-	-	-
Effect of interest rate swap		0.123%	-	60,000	-	-	(60,000)	-
Finance lease liabilities *	22	6.990%	911	335	174	177	211	14
Balance as at 30 June 2006			(64,093)	7,331	(3,826)	(3,823)	(63,789)	14

* These assets / liabilities bear interest at a fixed rate.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, that are denominated in a currency other than in AUD. The currency giving rise to this risk is primarily U.S. Dollars.

The Group uses forward exchange contracts to hedge its foreign currency risk. All forward exchange contracts have maturities of less than one year after the reporting date.

27 FINANCIAL INSTRUMENTS *continued*

Fair values

The fair value together with the carrying amounts shown in the balance sheet are as follows:

In thousands of AUD	Carrying amount 2007 $'000	Fair value 2007 $'000	Consolidated Carrying amount 2006 $'000	Fair value 2006 $'000
Trade and other receivables	34,743	34,743	35,641	35,641
Trustee maintenance fund deposit	25	25	30	29
Equity securities available-for-sale	10,906	10,906	5,246	5,246
Cash and cash equivalents	5,231	5,231	6,996	6,996
Secured bank loans	(150,265)	(150,265)	(134,450)	(134,450)
Finance lease liabilities	(878)	(878)	(816)	(816)
Trade and other payables	(96,112)	(96,112)	(107,548)	(107,548)
	(196,350)	(196,350)	(194,901)	(194,902)
Unrecognised (losses)		-		(1)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments are discussed in *note 4*.

Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

28 OPERATING LEASES

Leases as leassee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
In thousands of AUD	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Less than one year	3,689	3,746	3,689	3,746
Between one and five years	7,466	5,627	7,466	5,627
More than five years	4,105	1,931	4,105	1,931
	15,260	11,304	15,260	11,304

The Group lease a number of heavy plant vehicles, forklifts, log grabs and motor vehicles under operating leases. The leases typically run for a period of 3 to 5 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the financial year ended 30 June 2007, $3,734,702 was recognised as an expense in the Income Statements in respect of operating leases (2006: $4,157,334).

In thousands of AUD	Consolidated 2007 $'000	Consolidated 2006 $'000	The Company 2007 $'000	The Company 2006 $'000
29 CAPITAL AND OTHER COMMITMENTS				
Capital expenditure commitments				
Plant and equipment				
Contracted but not provided for and payable:				
Within one year	3,790	7,696	3,790	7,696
One year or later and no later than five years	-	3,500	-	3,500
Later than five years	-	-	-	-
	3,790	11,196	3,790	11,196

30 RELATED PARTIES

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors
Mr P D Teisseire (Chairperson)
Mr D S Kerr
Mr R Graham

Executives
Mr A N Jakab (Chief Operations Officer)
Mr J Panagopoulos (Chief Financial Officer)
Mr M A McGlone (Company Secretary)
Mr S Tucker (General Manager Strategic Planning)

Executive director
Mr A de Bruin (Managing Director)

The key management personnel compensation included in 'personnel expenses' (see *note* 9) are as follows:

In AUD	Consolidated 2007 $	Consolidated 2006 $	The Company 2007 $	The Company 2006 $
Short-term employee benefits	1,348,817	980,152	1,348,817	980,152
Post employment benefits	165,592	149,125	165,592	149,125
	1,514,409	1,129,277	1,514,409	1,129,277

Individual directors and executives compensation disclosures
Information regarding individual directors and executives compensation and some equity instrument disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report, section 14.14 of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to key management personnel and their related parties
Details regarding loans outstanding at the reporting date to key management personnel and their related parties, are as follows:

In AUD	Balance 1 July 2006 $	Balance 30 June 2007 $	Interest paid and payable in the reporting period $	Highest balance in the reporting period $
Key management personnel				
Mr A de Bruin	641,000	641,000	-	641,000
Mr M A McGlone	29,350	29,350	-	29,350
Mr J Panagopoulos	2,917	2,917	-	2,917
	673,267	673,267	-	673,267

30 RELATED PARTIES *continued*

Loans to key management personnel and their related parties
Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to key management personnel and their related parties, and number of individuals in each group, are as follows.

In AUD	Opening Balance $	Closing Balance $	Interest paid and payable in the reporting period $	Number in group at 30 June $
Total key management personnel 2007	673,267	673,267	-	3
Total key management personnel 2006	673,267	673,267	-	3

The loans to directors and executives arises from share issues made in 1988, 1989 & 1993 under the Auspine Employee Incentive Scheme as approved by Special Resolution of shareholders on 5th May 1988.

Loans to specified directors and specified executives are interest free and repayable at any time prior to termination of employment. No loans were made to directors during the year.

No amounts have been written-down or recorded as allowances, as the balances are considered fully collectible.

Other key management personnel transactions
A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

i) During the year the Group made timber sales of $54,953 (2006: $73,947) to the Managing Director. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms;

ii) During the year the Southern Silvicultural Management Pty Ltd, a company affiliated with the Managing Director engaged the Group to perform afforestation work for an annual charge of $6,194 (2006: $1,982). Amounts received and billed were based on normal market rates for such services and were received and payable under normal receivable and payment terms;

iii) During the reporting period the Group rented premises at a cost of $969,821 (2006: $522,639) owned by De Bruin Nominees Pty Ltd a company affiliated with the Managing Director. Contract terms are based on market rates for rented premises, and amounts are payable on a monthly basis for the duration of the contract;

iv) During the year Mr P D Teisseire engaged the Group to perform afforestation work for an annual charge of $1,779 (2006: $2,038) and received proceeds from plantation thinning of $1,146 (2006: $nil). Amounts received and billed were based on normal market rates for such services and were received and payable under normal receivable and payment terms; and

v) During the year Mr D S Kerr engaged the Group to perform afforestation work for an annual charge of $2,094 (2006: $1,979). Amounts received and billed were based on normal market rates for such services and were received and payable under normal receivable and payment terms.

From time to time, key management of the Group, or their related entities, may purchase goods from the Group. These purchases are are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

Movements in shares
The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2006	Purchases	Sales	Held at 30 June 2007
Directors				
Mr P D Teisseire	18,200	5,300	-	23,500
Mr D S Kerr	279,473	-	-	279,473
Mr A de Bruin	14,960,000	730,000	-	15,690,000
Executives				
Mr M A McGlone	29,350	20,000	(16,650)	32,700
Mr J Panagopoulos	2,917	-	-	2,917

No shares were granted to key management personnel during the reporting period as compensation.

31 CONSOLIDATED ENTITIES

	Place of Incorporation	% of Shares Held 2007	2006
Parent entity			
Auspine Limited	VIC *		
Subsidiaries			
Auspine Tree Farms Pty Ltd	SA *	100%	100%
Auspine Green Energy Pty Ltd	VIC❑	-	100%
Willdana Pty Ltd	VIC❑	-	100%
Timbersales Pty Ltd	VIC *	100%	100%
Timbersales Kalangadoo Pty Ltd	SA❑	-	100%
South East Afforestation Services Pty Ltd	SA *	100%	100%
S.E.A.S. Securities Pty Ltd	SA❑	-	100%
S.E.A.S. Plantations Pty Ltd	VIC *	100%	100%
S.E.A.S. Estates Pty Ltd	SA *	100%	100%
Manna Holdings Pty Ltd	SA *	100%	100%
S.E.A.S. Sapfor Investment Services Pty Ltd	SA *	100%	100%
Tasmanian Softwoods Pty Ltd	TAS *	100%	100%
Taspine Pty Ltd	TAS *	100%	100%
S.E.A.S. Sapfor Forests Pty Ltd	SA *	100%	100%
Sapfor Trading Pty Ltd	SA *	100%	100%
S.E.A.S. Sapfor Harvesting Pty Ltd	SA *	100%	100%
S.E.A.S. Export International Pty Ltd	SA❑	-	100%
Cowells Pty Ltd	SA❑	-	100%
Cowells Investments Limited	SA❑	-	100%
Cowells Group Limited	SA❑	-	100%
Auspine Plantations Limited	NSW *	100%	100%
AUSPINE International Pte Ltd	SINGAPORE #	100%	100%
Kanawinka Trusts	SA	100%	100%

* These companies are party to the deed of cross guarantee (refer *note 34*) and except for Auspine Limited are not subject to audit.

❑ These companies were wound up and deregistered during the reporting period and are no longer party to the deed of cross guarantee.

This company is audited by Ang & Co. Certified Public Accountants Singapore.

32 SUBSEQUENT EVENTS

Other than matters discussed in the Directors report there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group.

In AUD	Consolidated 2007 $	Consolidated 2006 $	The Company 2007 $	The Company 2006 $
33 AUDITOR'S REMUNERATION				
Audit services				
Auditors of the Company				
KPMG Australia:				
– audit and review of financial reports	214,000	230,000	214,000	230,000
– other regulatory audit services	30,950	25,150	30,950	25,150
	244,950	255,150	244,950	255,150
Other auditors				
Audit and review of financial reports	36,135	27,795	29,135	21,700
	281,085	282,945	274,085	276,850
Other services:				
Auditors of the Company				
KPMG Australia:				
– taxation services	18,621	30,964	18,621	30,964
	18,621	30,964	18,621	30,964

34 DEED OF CROSS GUARANTEE

Pursuant to Australian Securities and Investments Commission (ASIC) Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are listed in *note 31*.

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, as at 30 June 2007 is set out as follows:

	Consolidated 2007 $'000	Consolidated 2006 $'000
Summarised Income Statements and retained profits		
Profit/(loss) before tax	(5,562)	20,015
Income tax expense	1,879	(5,858)
Profit/(loss) after tax	(3,683)	14,157
Retained profits at beginning of year	143,674	137,913
Adjustment to retained profits on transition to IFRS, net of tax	-	(777)
Reduction in retained profits on share buy-back	-	-
Dividends recognised during the year	(8,112)	(7,619)
Retained profits at end of year	131,879	143,674

34 DEED OF CROSS GUARANTEE *continued*

Balance Sheet

In thousands of AUD	Consolidated 2007 $'000	Consolidated 2006 $'000
Assets		
Cash and cash equivalents	4,268	6,284
Trade and other receivables	34,295	35,530
Inventories	33,588	33,821
Biological assets	8,195	6,920
Income tax receivable	631	1,933
Total current assets	80,977	84,488
Receivables	583	627
Investments	10,892	5,166
Property, plant and equipment	289,276	299,085
Biological assets	206,645	203,258
Intangible assets	2,786	7,381
Total non-current assets	510,182	515,517
Total assets	591,159	600,005
Liabilities		
Trade and other payables	29,492	35,783
Interest bearing loans and borrowings	4,592	3,461
Employee benefits	3,991	4,162
Income tax payable	-	-
Provisions	625	1,701
Total current liabilities	38,700	45,107
Trade and other payables	57,495	62,656
Interest bearing loans and borrowings	146,452	131,706
Deferred tax liabilities	74,246	75,779
Employee benefits	3,648	3,477
Provisions	1,063	-
Total non-current liabilities	282,904	273,618
Total liabilities	321,604	318,725
Net assets	269,555	281,280
Equity		
Issued capital	92,891	92,891
Reserves	44,785	44,715
Retained earnings	131,879	143,674
Total equity	269,555	281,280

KPMG

Independent Auditor's Report to members of Auspine Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the Directors' report

We have audited the accompanying financial report of Auspine Limited (the 'Company'), which comprises the Balance Sheets as at 30 June 2007, and the Income Statements, Statements of recognised income and expense and Statements of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 34 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in section 14.14 of the Directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures in the Directors' report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

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

Auditor's opinion on the financial report

In our opinion:
the financial report of Auspine Limited is in accordance with the *Corporations Act 2001*, including:

i giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in section 14.14 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG

G Savage
Partner

Adelaide, 20 September 2007.

Number of holders of ordinary shares as at 17 September 2007 **1,114**

Voting Rights

Ordinary shareholder – On a show of hands every member present in person or by representative, proxy or attorney shall have one vote and upon each poll each fully paid share shall have one vote.

Number and distribution of Shareholders as at 17 September 2007

1 – 1,000	392
1,001 – 5,000	543
5,001 – 10,000	96
10,001 – 100,000	69
100,001 – and over	14

Number of holders holding less than a marketable parcel 7

Substantial Shareholders as at 17 September 2007

Gunns Limited	32,797,408
de Bruin Nominees Pty Ltd	16,190,457

Twenty Largest Shareholders as at 17 September 2007	**Number**	**% of Class**
Gunns Limited	32,369,760	59.63
de Bruin Nominees Pty Ltd	10,550,000	19.56
Mayura Pty Ltd	5,445,672	10.10
Mr Adrianus de Bruin	350,000	0.65
ANZ Nominees Limited (Cash income A/C)	346,982	0.64
Mr Kenneth William & Mrs Betty Faye Badenoch	254,200	0.47
UBS Wealth Management Australia Nominees Pty Ltd	246,500	0.46
HSBC Custody Nominees (Australia) Limited	164,597	0.31
Holdex Nominees Limited	140,148	0.26
Brian Smith Transport Pty Ltd (Superannuation Fund A/C)	124,700	0.23
Aileendonan Investments Pty Ltd	100,000	0.19
Mr Michael Edward Plummer	64,500	0.12
Perpetual Trustee Company Limited	59,000	0.11
Lymal Pty Ltd	56,000	0.10
Baxigi Pty Ltd	50,500	0.09
Mr William Leonard Grayden	50,000	0.09
Sycamoor Pty Limited	50,000	0.09
Mr George Gillespie Keirle	45,000	0.08
National Nominees Limited	43,380	0.08
Citicorp Nominees Pty Limited	43,232	0.08
	50,554,171	93.34

Share buyback

On 21 November 2003 the Company announced an on market buyback of 2,747,223 shares. Since the announcement the shares have progressively appreciated; consequently no shares have been bought back so far.

Share register

Shareholders with queries about anything related to their shareholding should contact the Auspine Limited Share Registry in Adelaide, Australia by telephone (within Australia) 1800 232 867 or (outside Australia) +61 8236 2300.

Alternatively, shareholders may wish to write to:
Auspine Limited Share Registry
Computershare Investor Services Pty Ltd
Level 11
115 Grenfell Street
Adelaide SA 5000

Details of individual shareholdings can be checked conveniently and simply by visiting our Registrar's web site at: www.computershare.com/au/investors.

For security reasons, you then need to key in your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) plus company name or ASX code and postcode to enable access to personal information.

Change of Address

Issuer sponsored shareholders should notify the Auspine Limited Share Registry immediately, in writing, signed by the shareholder/s, of any change to their registered address. For added security, shareholders should quote their previous address and HIN or SRN. CHESS uncertificated shareholders should advise their sponsoring broker or non-broker participant.

HISTORICAL INFORMATION

	2002	2003	2004	2005[1]	2006	**2007**
Financial statistics ($'000)						
Sales revenues	209,571	231,899	218,073	200,166	223,984	234,199
Earnings before depreciation interest & tax	26,889	34,198	37,530	34,530	35,710	10,428
Depreciation and amortization of fixed assets	8,230	8,710	9,029	9,607	8,308	8,348
Earning before interest & tax	18,659	25,488	28,501	24,923	27,402	2,080
Interest expense	3,839	4,001	4,042	5,999	7,305	7,401
Income tax expense / (benefit)	4,720	6,575	(4,467)	6,105	5,845	(1,040)
Net operating profit / (loss)	10,100	14,911	28,926	12,819	14,252	(4,281)
Dividends paid	7,406	8,305	9,980	10,997	7,777	8,121
Capital Expenditure	8,625	15,477	16,463	6,227	8,692	14,040
Plantation investment / establishment	4,771	6,635	5,294	7,041	5,341	12,590
Operating cash flow	20,543	30286	29,133	4,551	21,031	16,384
Current assets	68,303	67,316	63,826	75,086	85,557	82,270
Property, plant and equipment	144,433	154,084	209,840	218,802	299,196	289,340
Standing timber	114,932	179,458	195,083	199,119	210,178	214,840
Total assets	342,401	420,282	483,405	505,109	601,185	592,516
Current liabilities	29,599	35,658	38,636	30,104	42,275	39,003
Net interest bearing debt	60,918	69,976	74,044	93,190	128,270	145,911
Total liabilities	144,037	209,266	224,348	233,186	319,143	322,734
Shareholders' equity	198,364	194,940	259,057	271,923	282,042	269,782
Performance Indicators						
Dividends per share (cents)	14.0	17.0	20.5	15.0	19.0	17.0
Basic earnings per share	17.7	26.7	53.6	23.8	26.4	(7.9)
NTA per share ($)	$3.29	$3.42	$4.63	$4.88	$5.10	$4.95
Gearing ratio (%)	30.7%	35.9%	28.6%	34.3%	45.5%	54.1%
Return on shareholders' funds (%)	5.1%	7.6%	11.2%	4.7%	5.1%	(1.6%)
Interest cover – EBIT / interest expense (times)	4.9	6.4	7.1	4.2	3.8	0.3
Current assets / current liabilities (times)	2.3	1.9	1.7	2.5	1.9	2.1
Share price year end	$2.20	$2.80	$3.95	$3.82	$4.22	$6.17
Shareholder Return %[2]	-	35.0%	48.4%	0.8%	15.4%	50.2%
Market Cap $/m	$125m	$151m	$213m	$206m	$228m	$333m

[1] *2005 Profit and Balance sheet are as reported – not AIFRS adjusted*

[2] *(Change in share price + dividend) / previous share price*

AUSPINE

Building a greener Australia

ABN 48 004 289 730

CORPORATE DIRECTORY

AUSPINE WEB SITE
www.auspine.com.au

DIRECTORS

P D Teisseire (Chairman)
A de Bruin (Managing Director)
J E Gay (Director)
R H Graham (Director)
R T Gray (Director)
R T J Holyman (Director)
C J Newman (Director)

Chief Operations Officer
A N Jakab

Chief Financial Officer
J Panagopoulos

Secretary
M A McGlone
T D Nguyen

REGISTERED OFFICE

20 Penola Road
Mount Gambier
South Australia 5290

PO Box 79
Mount Gambier
South Australia 5290

SHARE REGISTRAR

Computershare Investor Services Pty Ltd
Level 5, 115 Grenfell Street
Adelaide
South Australia 5000
Tel 1300 556 161

AUDITOR

KPMG
151 Pirie Street
Adelaide
South Australia 5000

PRINCIPAL BANKERS

Commonwealth Bank of Australia Limited
National Australia Bank Limited
Rabobank, Singapore

CORPORATE HEAD OFFICE:
Finance and Administration
20 Penola Road, Mount Gambier SA 5290
Ph: 08 8721 2222
Fax: 08 8721 2251

RESOURCE MANAGEMENT:
20 Penola Road,
Mount Gambier SA 5290
Ph: 08 8721 2222
Fax: 08 8721 2254

GREEN TRIANGLE PRODUCTION:

TARPEENA SAWMILL
Penola Road, Tarpeena SA 5277
Ph: 08 8721 5555
Fax: 08 8721 5553

PORTLAND LAMINATING
Building C Elders Warehouse
Cashmore Road, Portland VIC 3305
Ph: 03 5589 6866
Fax: 03 5523 6840

KALANGADOO PRESERVATION

North East Terrace,
Kalangadoo SA 5278
Ph: 08 8739 2534
Fax: 08 8739 2511

AUSPINE TASMANIA:

SCOTTSDALE MILL & PRESERVATION PLANTS

TONGANAH
Tasman Highway, Scottsdale TAS 7260
Ph: 03 6352 8999
Fax: 03 6352 8991

LING SIDING
– Trading as FRENCHPINE
Tasman Highway,
Scottsdale TAS 7260
Ph: 03 6352 6222
Fax: 03 6352 3353

CUSTOMER SERVICE CENTRES:

VICTORIA
93 Lorimer Street,
South Melbourne VIC 3205
Ph: 03 9248 7666
Fax: 03 9248 7677

WESTERN AUSTRALIA
Warehouse 5
535 Abernathy Road,
Kewdale WA 6106
Ph: 08 9441 3131
Fax: 08 9441 3132

SOUTH AUSTRALIA
Gillman
140 Eastern Parade,
Gillman SA 5013
Ph: 08 8203 2933
Fax: 08 8447 7403

TASMANIA
Tasman Highway,
Scottsdale TAS 7260
Ph: 03 6352 8999
Fax: 03 6352 8991

Kalangadoo
Crowe Street
Kalangadoo SA 5278
Ph: 08 8739 2524
Fax: 08 8739 2544

SINGAPORE
Auspine International Pte Ltd
Block 165, Bukit Merah Central
#06-3667/3669
Singapore 150 165
Ph: 0011 65 6 278 1888
Fax: 0011 65 6 275 5330

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