

# Hudson Timber Products

**Hudson Timber Products Limited**  
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13 September 2005

Company Announcements Office  
Australian Stock Exchange Limited  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sirs

## **HUDSON TIMBER PRODUCTS LIMITED (ASX: HTL) PRELIMINARY FINAL STATEMENT**

On behalf of the Board of Directors, I present the preliminary final report for Hudson Timber Products Limited ("HTL") for the year ended 30 June 2005.

### **Results**

The result for the year ended 30 June 2005 was a loss after tax of \$7.3 million. The primary causes of the poor performance were the impact of one off charges (principally the costly completion of extensive litigation with the former parent entity, Hudson Investment Group Limited ("HIG")) and poor management in a weak environment from Hudson Frame & Truss ("HFT") which recorded an operating loss. The major factors contributing to the loss after tax included:

- An operating loss of \$4.1 million from HTL's wholly owned subsidiary, HFT;
- The payment of \$1.6 million in legal and professional costs associated principally with the HIG litigation but also including various other legal matters; and
- The completion of the rights issue in December 2004 included a \$0.5 million redemption fee to existing noteholders, which has been written off in the result for the year.

### **Manufacturing Operations**

HFT recorded a loss after tax of \$4.1 million for the year ended 30 June 2005. As a result of poor management decisions during this period certain of HFT's major customers were lost and production inefficiencies arose as a direct consequence of decreased factory throughput. The entire business was restructured during the December 2004 quarter. The restructuring process is largely complete.

Since the restructuring of management, HFT has shown an improving trend in its financial performance, with sales revenues increasing since April 2005. It is pleasing to report that HFT is gaining market share in a soft housing market. HFT operations returned a marginally profitable result in August 2005 on approximately \$6.0 million in sales and the forward order book suggests that this positive trend is likely to continue for the balance of calendar 2005.

Australian Hardboards Limited traded profitably for the year ended 30 June 2005, although its result was also down on prior years due to a 4% decrease in sales revenues. The reduction in sales revenues principally arose due to lower than anticipated sales to AHL's major customer and as a result of a slow down in residential building activity generally.

Australian I-beams continues to be marginally profitable on a "one-shift" basis. The management of the Company are currently assessing the financial viability of adding a further shift to I-beams production to enhance manufacturing recoveries.

### **AH Bremer Park ("AHBP")**

As reported to ASX on 15 August 2005, Justice Einstein hand down a judgement in the Supreme Court of NSW on 12 August 2005, which confirmed that HTL remained the 100% owner of AHBP. However, Justice Einstein found in favour of HIG in relation to a Deed of Entitlement, which provides HIG an entitlement to a maximum of \$10 million from the sale of any Bremer land on or before 8 June 2006.

### **Tax Position**

As at 30 June 2005, the Company has approximately \$30 million in carried forward tax losses and has \$6.0 million (on a tax paid basis) in available franking credits for subsequent financial periods based on a tax rate of 30%.

### **Outlook**

The main focus areas for the Company for the next 12 months are as follows:

- to maintain the improving profitable trend in Hudson Frame & Truss, in what remains a soft housing market in New South Wales and Victoria.
- to focus on extracting increased profitability from Australian Hardboards Limited through value added products.
- to finalise construction and commissioning of the EPA approved Water Treatment Plant by March 2006, which will enable the development of Bremer Business Park.
- to keep group costs to an absolute minimum.

I would like to thank all stakeholders for their support during the past year and we are focussed on producing a turnaround result in 2005/06.

Yours sincerely

Matthew Knox  
Chief Executive Officer

# HUDSON TIMBER PRODUCTS LIMITED

## ASX Preliminary final report – 30 June 2005

Lodged with the ASX under Listing Rule 4.3A

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HUDSON TIMBER PRODUCTS LIMITED  
Year ended 30 June 2005

Results for Announcement to the Market

				\$
<b>Revenue</b> from ordinary activities	Down	24%	to	98,989
<b>Profit/(loss)</b> from ordinary activities after tax attributable to members	Loss reduced	22%	to	(7,250)
<b>Net profit/(loss)</b> for the period attributable to members	Loss reduced	22%	to	(7,250)

<b>Dividends/distributions</b>	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

**Record date** for determining entitlements to the dividend

N/A

**HUDSON TIMBER PRODUCTS LIMITED**  
**Preliminary consolidated statement of financial performance**  
**For the year ended 30 June 2005**

	2005 \$'000	2004 \$'000
<b>Revenue from ordinary activities</b>	<b>98,989</b>	130,056
Cost of sales	<b>(82,158)</b>	(105,359)
<b>Gross profit</b>	<b>16,831</b>	24,697
Other revenue from ordinary activities	<b>1,066</b>	2,602
Other expenses from ordinary activities		
Administration	<b>(7,900)</b>	(7,600)
Warehousing & distribution	<b>(6,978)</b>	(9,006)
Sales and marketing	<b>(1,996)</b>	(3,960)
Technical	<b>(2,190)</b>	(1,658)
Other	<b>(516)</b>	(516)
Sale of non current assets	-	(1,122)
Existing noteholder conversion fee	<b>(500)</b>	-
Redundancies	<b>(338)</b>	-
Legal and other professional costs on litigation	<b>(1,572)</b>	(400)
Liquidated damages settlement in relation to one-off contract	-	(500)
Surplus lease space provision	-	(1,235)
Closure costs of the Mt Druitt Frame & Truss plant	-	(930)
Borrowing costs	<b>(3,157)</b>	(2,696)
<b>Loss from ordinary activities before related income tax expense</b>	<b>(7,250)</b>	(2,324)
Income tax expense*	-	(7,005)
<b>Net loss attributable to members of Hudson Timber Products Limited</b>	<b>(7,250)</b>	(9,329)
Amounts recognised directly in equity	-	-
<b>Total changes in equity attributable to members of Hudson Timber Products Limited other than those resulting from transactions with owners as owners</b>	<b>(7,250)</b>	(9,329)

\* The income tax expense does not reflect 30% of the loss before tax principally due to the non-recognition of tax losses.

*The above statement of consolidated financial performance should be read in conjunction with the accompanying notes.*

**HUDSON TIMBER PRODUCTS LIMITED**  
Preliminary consolidated statement of financial position  
As at 30 June 2005

	30 June 2005 \$'000	30 June 2004 \$'000
<b>Current assets</b>		
Cash	45	5
Receivables	17,705	20,262
Inventories	8,439	9,461
Other	1,114	622
Total current assets	<u>27,303</u>	<u>30,350</u>
<b>Non-current assets</b>		
Property, plant and equipment	27,228	27,051
Land under development	12,603	11,654
Intangibles	8,113	8,639
Deferred tax assets	1,145	1,127
Total non-current assets	<u>49,089</u>	<u>48,471</u>
<b>Total assets</b>	<u>76,392</u>	<u>78,821</u>
<b>Current liabilities</b>		
Accounts payable	15,392	15,529
Interest bearing liabilities *	24,348	7,795
Provisions	3,202	4,041
Total current liabilities	<u>42,942</u>	<u>27,365</u>
<b>Non-current liabilities</b>		
Interest bearing liabilities *	14,760	30,662
Provisions	1,816	1,909
Deferred tax liabilities	-	11
Total non-current liabilities	<u>16,576</u>	<u>32,582</u>
<b>Total liabilities</b>	<u>59,518</u>	<u>59,947</u>
<b>Net assets</b>	<u>16,874</u>	<u>18,874</u>
<b>Equity</b>		
Contributed equity	47,662	42,412
Accumulated losses	<u>(30,788)</u>	<u>(23,538)</u>
<b>Total equity</b>	<u>16,874</u>	<u>18,874</u>

\* The Company's revolving credit facility expires on 20 December 2005, hence the liability of \$13.6 million is disclosed in current interest bearing liabilities. The Company has received a conditional offer from the lender to extend the facility for a further three years. The directors are assessing the renewal offer in addition to alternative financing options.

*The above statement of financial position should be read in conjunction with the accompanying notes.*

HUDSON TIMBER PRODUCTS Limited  
Preliminary consolidated statement of cash flows  
For the year ended 30 June 2005

	Year ended 30 June 2005 \$'000	Year ended 30 June 2004 \$'000
<b>Cash flows from operating activities</b>		
Receipts from trade and other debtors	112,591	153,393
Payments to trade creditors, other suppliers and creditors and employees	(110,854)	(157,588)
Interest paid	(3,157)	(2,696)
Interest received	22	307
Income tax refunded	-	205
<b>Net cash outflow from operating activities (1)</b>	<u>(1,398)</u>	<u>(6,379)</u>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(2,223)	(1,208)
Payments for land under development	(729)	(1,356)
Proceeds from sale of property, plant and equipment	10	1,616
<b>Net cash outflow from investing activities</b>	<u>(2,942)</u>	<u>(948)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares, net of issue costs	-	(62)
Repayment of lease liabilities	(2,277)	(2,120)
Proceeds from issue of convertible notes	6,573	5,000
Proceeds from borrowings	5,028	4,509
Repayment of borrowings	(4,944)	-
<b>Net cash inflow from financing activities</b>	<u>4,380</u>	<u>7,327</u>
<b>Net increase in cash held</b>	<b>40</b>	<b>-</b>
<b>Cash at the beginning of the financial year</b>	<u>5</u>	<u>5</u>
<b>Cash at the end of the financial year (2)</b>	<u><b>45</b></u>	<u><b>5</b></u>

- (1) The cash outflow from operating activities in the prior year was predominately caused by the payment of residual creditors which existed from the sale of the Timber & Hardware Merchandising Division on 30 May 2003. The payment of residual creditors and receipt of residual debtors from the Timber & Hardware Merchandising Division resulted in a \$6.5 million net cash outflow over the prior year.
- (2) The closing cash balance represents the Company's cash on hand position as at 30 June 2005. The Company had available facilities of \$0.3 million under the revolving credit facility with its senior lender as at 30 June 2005. The available cash on hand position has improved to \$0.7 million as at 31 August 2005 after paying approximately \$0.5 million in legal costs, provided for at year end, in the two month period subsequent to year end.

**HUDSON TIMBER PRODUCTS LIMITED**  
**Notes to the preliminary consolidated financial statements**  
**For the year ended 30 June 2005**

**1. Basis of preparation**

This preliminary final report has been prepared in accordance with ASX listing rule 4.3BA.1 and the disclosure requirements of ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2004 annual financial report.

This preliminary final report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the last annual report issued for the period ended 30 June 2004 and any public announcements made by Hudson Timber Products Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. The full annual report for the year ended 30 June 2005 is expected to be available on or before 30 September 2005.

**2. Significant transactions**

On 23 December 2004 the Company issued 15,563,721 convertible notes of \$1 each. This issue raised \$10.1 million of new equity. In addition, Existing Noteholders of the Company were given the opportunity to subscribe for additional New Notes up to a maximum face value of a further \$5.5 million, to be allotted in consideration for the transfer to the Company of the Existing Convertible Notes they hold in the Company. Readers are encouraged to read the Prospectus dated 19 November 2004 for a full explanation of the terms and conditions of the issue.

The proceeds of the Rights Issue were used to repay some of the existing short term debt, to improve working capital balances and to provide loan funds to the Company's subsidiary, AH Bremer Park, to enable it to pay for the deposit on equipment for the water treatment plant.

In accordance with AASB 1033 and AASB 132, the new notes are disclosed in the statement of financial position in accordance with the residual method. \$9,880,000 has been disclosed in interest bearing liabilities and \$5,684,000 is disclosed as contributed equity on initial recognition.



### 3. Revenue & expense details

#### Revenue

	Year ended 30 June 2005 \$'000	Year ended 30 June 2004 \$'000
<b>Revenue from operating activities</b>		
Sales revenue	98,989	130,056
<b>Revenue from outside the operating activities</b>		
Interest revenue	22	307
Proceeds from sale of property, plant and equipment	10	1,617
Other revenue	1,034	678
	<b>1,066</b>	<b>2,602</b>
Revenue from ordinary activities	<b>100,055</b>	<b>132,658</b>

Operating loss before income tax includes the following specific net gains and expenses:

#### (i) Net gains

Net gain on disposal		
Property, plant and equipment	-	292

#### (ii) Expenses

Amortisation		
Goodwill	526	526
Plant and equipment under finance lease	1,287	1,261
Depreciation	1,419	1,425

#### (ii) Other significant expenses

Existing noteholder conversion fee	500	-
Redundancies	338	-
Legal and other professional costs on litigation	1,572	400
Liquidated damages settlement in relation to one-off contract	-	500
Surplus lease space provision	-	1,235
Closure costs of the Mt Druitt Frame & Truss plant	-	930
	<b>2,410</b>	<b>3,065</b>

#### 4. Segment information

2005	Frame & truss - manufacturing & wholesale	Masonite & related products - manufacturing & wholesale	Unallocated / Corporate	Consolidated
	\$'000	\$'000	\$'000	\$'000
Sales to external customers	57,293	41,696	-	98,989
Other revenue	110	956	-	1,066
Total segment revenue	57,403	42,652	-	100,055
Segment result (pre interest)	(3,106)	2,905	(3,892)	(4,093)
Segment result	(4,092)	2,205	(5,363)	(7,250)
Income tax expense				-
Net loss after tax				(7,250)
Segment assets	21,983	54,206	203	76,392
Segment liabilities	24,701	19,513	15,304	59,518
Acquisition of property, plant & equipment , intangibles and other non- current assets	665	3,177	-	3,842
Depreciation and amortisation expense	1,645	1,587	-	3,232
2004	Frame & truss - manufacturing & wholesale	Masonite & related products - manufacturing & wholesale	Unallocated / Corporate	Consolidated
	\$'000	\$'000	\$'000	\$'000
Sales to external customers	89,091	40,965	-	130,056
Other revenue	1,759	843	-	2,602
Total segment revenue	90,850	41,808	-	132,658
Segment result (pre interest)	(13)	4,405	(4,020)	372
Segment result	(1,963)	3,659	(4,020)	(2,324)
Income tax expense				(7,005)
Net loss after tax				(9,329)
Segment assets	25,177	53,644	-	78,821
Segment liabilities	23,967	21,144	14,836	59,947
Acquisition of property, plant & equipment , intangibles and other non- current assets	770	1,794	-	2,564
Depreciation and amortisation expense	1,643	1,229	360	3,232

## 5. Changes in accounting policies

There were no changes in accounting policies.

## 6. Extraordinary items

There were no extraordinary items during the period.

## 7. Events occurring after reporting date

- In the judgement handed down by Justice Einstein on 12 August 2005 it was confirmed that HTL remained the 100% owner of Bremer. However, Justice Einstein found in favour of HIG in relation to a Deed of Entitlement, which provides HIG an entitlement to a maximum of \$10 million from the sale of any Bremer land on or before 8 June 2006.
- As announced to the ASX on 8 September 2005, Hudson Timber Products Limited and its wholly owned subsidiaries, Australian Hardboards Limited ("AHL") and AH Bremer Park Pty Limited recently reached a settlement in relation to the civil action with the Queensland Environmental Protection Agency ("EPA").

AHL and Mr McLeod are also facing criminal charges initiated by the EPA in the Magistrates Court relating to the same subject matter as the consent orders, however the EPA has not finalised its position on those proceedings, and no committal date has yet been set.

## 8. Accumulated losses

	Year ended 30 June 2005 \$'000	Year ended 30 June 2004 \$'000
Accumulated losses at the beginning of the financial period	(23,538)	(14,209)
Net loss attributable to the members of Hudson Timber Products Limited	(7,250)	(9,329)
Dividends provided for or paid	-	-
Balance as at the end of the financial year	<u>(30,788)</u>	<u>(23,538)</u>

## 9. NTA backing

	2005	2004
Net tangible asset backing per ordinary share	9.7 cents	11.3 cents

## 10. Controlled entities acquired or disposed of during the year

No material acquisitions or disposals.

## 11. Earnings per share

### *Earnings per share*

	Year ended 30 June 2005	Year ended 30 June 2004
Basic earnings per share	(8.0) cents	(10.3) cents
Alternate earnings per share (loss before tax)	(8.0) cents	(2.6) cents

Weighted average number of shares used to calculate basic earnings per share 90,575,884 (2004: 90,575,884).

Options over shares do not have a dilutive effect on earnings per share at the year end or the prior period end, hence only basic earnings per share has been disclosed.

## 12. Contingent liabilities

The following factors may affect results in the future:

- On 30 May 2003, the Company assigned all leases associated with the occupied premises of the Timber & Hardware Merchandising Division to its purchaser, Hudson Building Supplies Pty Limited. The commitment approximates \$4.3 million in aggregate as at 30 June 2005 (2004: \$7.1 million) and is fully released by 31 October 2007. In the unforeseen event that Hudson Building Supplies Pty Limited were to become insolvent at a future point in time, the Company, under the terms of the property lease assignments, is still responsible for the unexpired portion of the leases, with the availability to sub lease the premises.
- As noted in section 7 of this preliminary final report, the Company has an obligation under the entitlement deed to Hudson Investment Group Limited ("HIG"), which provides HIG an entitlement to a maximum of \$10 million from the sale of any Bremer land on or before 8 June 2006. The directors have reviewed the carrying value of the Bremer land and are satisfied that the asset is carried at the lower of cost and net realisable value.

## 13. Transition to Australian equivalent to IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has assigned the Chief Financial Officer (CFO) to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project is currently on schedule.

The CFO has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are disclosed below. The expected financial effects of adopting IFRS are shown below for the statements

of financial performance and statements of financial position, with descriptions of the differences. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards of interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

#### **(a) Income tax**

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to a current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005 there would be no change to the statement of financial position or statement of financial performance as the company has a significant unrecognised deferred tax asset.

#### **(b) Intangible assets – goodwill**

Under AASB 3 *Business Combinations*, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit.

This will result in a change to the current accounting policy, under which goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise and not exceeding 20 years.

If the policy required by AASB 3 had been applied during the year ended 30 June 2005, consolidated goodwill at 30 June 2005 would have been \$526,000 higher and consolidated amortisation expense for the year ended 30 June 2005 would have been \$526,000 lower. The parent entity goodwill at 30 June 2005 would have been \$168,000 higher and parent entity amortisation expense for the year ended 30 June 2005 would have been \$168,000 lower.

#### **(c) Financial instruments**

The group will be taking advantage of the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* only from 1 July 2005. This allows the group to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 132, the current classification of financial instruments issued by entities in the consolidated entity would not change. The group's disclosure of the convertible notes issued during the year complies with the international equivalent.

#### **(d) Non-current assets held for sale**

Under AASB 5 *Non-current assets held for Sale and Discontinued Operations*, a non-current asset will be classified as held for sale if its carrying amount is to be recovered principally through a sale transaction rather than through continued use. The asset will be measured at the lower of carrying amount and fair value, less costs to sell.

This will result in a change to the current accounting policy, under which the land under development is classified as non-current inventory and measured at the lower of cost or net realisable value.

If the policy required by AASB 5 had been applied during the year ended 30 June 2005, it is likely that consolidated entity "Non-current assets – land under development" of \$12,603,000 would have been re-classified to "Non-current assets classified as held for sale". The measurement of the asset would have remained unchanged.

**(e) Revenue disclosures in relation to the sale of non-current assets**

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on the sale. This in contrast to the current Australian GAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit or loss of this difference is nil.

If the policy required under AIFRS had been applied during the year ended 30 June 2004, the consolidated other revenue from ordinary activities would have been \$1,122,000 lower (parent entity \$1,122,000 lower), the consolidated carrying amount of non-current assets sold disclosed as an expense in the statement of financial performance would have been \$1,122,000 lower (parent entity \$1,122,000 lower).

**(f) Impairment of assets**

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. Impairment of assets will be determined on a discounted basis, with more defined tests for determining whether goodwill and other assets of cash-generating operations have been impaired.

This will result in a change to the current accounting policy, under which the recoverable amount of an asset is determined on the basis of undiscounted cash flows.

The impact, if any, of applying the new standard on the carrying values of goodwill and other assets has yet to be finalised.

**14. Audit**

This report is based on the books and records of the Company that are in the process of being audited.