

**TFS CORPORATION LTD  
AND CONTROLLED ENTITIES**  
A.B.N. 97 092 200 854

**APPENDIX 4E**

**Preliminary Financial Report  
For the year ended 30 June 2009**

# TFS CORPORATION LTD

## APPENDIX 4E PRELIMINARY FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2009

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# TFS CORPORATION LTD

## RESULTS FOR ANNOUNCEMENT TO MARKET FOR THE YEAR ENDED 30 JUNE 2009

Current reporting period					Year ended 30 June 2009	
Previous corresponding period					Year ended 30 June 2008	
					<b>ECONOMIC ENTITY</b>	
					<b>2009</b>	<b>2008</b>
					<b>\$'000</b>	<b>\$'000</b>
					<b>Percentage Change</b>	
<b>Revenue</b>						
<i>Revenue (Cash*)</i>						
Revenue from 'MIS' sales	Down	1.9%	to	48,522	49,478	
Revenue from 'institutional' sales	New			11,725	-	
Revenue from recurring fees	Up	18.1%	to	3,613	3,060	
Revenue from product sales	New			11,299	-	
Interest revenue	Down	16.3%	to	1,927	2,302	
Other revenue	Down	36.1%		1,264	1,977	
<i>Revenue (Non-Cash*)</i>						
Revenue from recognition of deferred fees	Up	85.7%	to	8,494	4,574	
Biological assets revenue	Up	287.3%	to	8,009	2,068	
Total Revenue from ordinary activities	Up	49.5%	to	94,852	63,458	
<b>EBITDA</b>						
Cash EBITDA	Up	20.9%	to	36,991	30,590	
Non Cash EBITDA	Up	148.5%	to	16,503	6,642	
TOTAL EBITDA	Up	43.7%	to	53,493	37,231	
<b>Net Profit After Tax</b>						
Net Profit/(Loss) After Tax (Cash*)	Up	19.5%	to	23,286	19,494	
Net Profit/(Loss) After Tax (Non Cash*)	Up	148.5%	to	11,552	4,649	
Net profit from ordinary activities after tax	Up	44.3%	to	34,838	24,143	
<b>MIS Product Sold</b>						
Hectares of MIS Product Sold	Down	16.7%	to	677.5	813.7	
Hectares of wholesale product sold	New			350.0	0.0	
	Up	26.3%	to	1027.5	813.7	
<b>Earnings Per Share</b>					<b>2009</b>	<b>2008</b>
					<b>(cents)</b>	<b>(cents)</b>
Basic EPS	Up	40.6%	to	18.40	13.09	
Diluted EPS	Up	40.1%	to	18.31	13.07	
Cash* Diluted EPS	Up	16.0%	to	12.24	10.55	
<b>Net Tangible Assets per Share</b>					<b>2009</b>	<b>2008</b>
					<b>(cents)</b>	<b>(cents)</b>
Net tangible asset backing per ordinary share	Up	8.1%	to	60.04	55.52	

**NOTE: This financial summary provided above is based on the new accounting policy adopted for 30 June 2009 and applied retrospectively to the prior years. Accordingly prior year comparatives may differ to those previously reported. For illustrative purposes, an attachment to this appendix 4E has been provided showing how the results would have looked under the previous accounting policy**

# TFS CORPORATION LTD

## RESULTS FOR ANNOUNCEMENT TO MARKET FOR THE YEAR ENDED 30 JUNE 2009

Dividends				Amount per share (cents)	Franked amount per share (cents)
Interim Dividend ('09) - paid				1.25	1.25
Final Dividend ('09) - declared				3.00	3.00
Total dividends paid / declared				4.25	4.25
				<b>Record date</b>	<b>Payment date</b>
<b>Final dividend</b>				2-Dec-09	22-Dec-09
<b>Last date for receipt of Dividend Reinvestment Plan participation notice</b>				2-Dec-09	
<b>Definition of cash / Non Cash Revenue *</b>					
For the purpose of the above figures the term 'Cash' refers to revenue / profits recorded in the financial statements relating to activities that bring in current cash resources. The term 'Non-Cash' refers to revenue / profits recorded in the financial statements that do not necessarily result in current cash resources for the group but rather record the group's interest in items that should bring in cash resources in the future (e.g on harvest).					
<b>Annual General Meeting</b>					
The annual general meeting will be held as follows:					
Location:	Perth. Exact location to be advised				
	(Notice of meeting to be forwarded 28 days prior to meeting)				
Date:	Thursday 19 November 2009				
Time:					

### Commentary on Results

The financial results for the TFS Corporation Ltd ("TFS") group are impacted this year by a change to the accounting policy used to recognise revenue for establishment fees earned by the company. In conjunction with discussions with the company's auditors, the directors believe that a change to the accounting policy was required to more accurately reflect the recognition of revenue as the establishment services are performed. This should generally be a more conservative policy compared to the previous revenue recognition policy which captured all of the revenue on receipt of an application in the project. As required by the accounting standards, the change in accounting policy has been applied retrospectively to prior years for the purposes of comparative information and accordingly the comparatives may differ from those previously reported.

The Directors of TFS announce that the consolidated net profit of the economic entity for the year ended 30 June 2009 after providing for income tax amounted to \$34.838m (2008: \$24.143m), an increase of 44.3%. This represents diluted earnings per share of 18.31 cents (2008: 13.07 cents), an increase of 40.1% over the prior year. If the change to the accounting policy was not made then the consolidated net profit after tax for group would have been \$37.063m (2008: \$27.581m), an increase of 34.4%.

The rise in profit is partially as a result of increased revenues from new contracts for the establishment of TFS's Indian sandalwood plantations. This year there were 2 products available, being the normal managed Investment Scheme ("MIS") product - TFS 2009 Indian Sandalwood Project, and the new non MIS institutional offering of Beyond Carbon 2009. Combined establishment fees that were contracted for from new business was \$64.066m (2008: \$54.389m), a rise of 17.7%, on a 26.3% increase in hectares of Indian sandalwood product sold, to 1027.5 hectares. Under the revised accounting policy for recognition of revenue \$46.650m (2008: 40.791m) of these fees have been recognised in the 30 June 2009 year. A further \$13.597m (2008: 8.686m) of fees from the sales in the 30 June 2008 year have also been recognised in the current year based on the same principle.

## **TFS CORPORATION LTD**

### **RESULTS FOR ANNOUNCEMENT TO MARKET FOR THE YEAR ENDED 30 JUNE 2009**

#### **Commentary Con't**

More specifically the MIS new business sales for the year were down 14.4% from the prior year to \$46.566m (2008: \$54.389m). Notwithstanding the reduction in sales, this represented a very pleasing result given the market conditions that existed in this financial year. Of the total amount of new business sales, \$34.924m (2008: 40.791m) have been recognised as revenue in the current year.

The new institutional product, Beyond Carbon 2009 contributed new establishment fees for the year to TFS of \$17.500m (2008: Nil). Of this amount of new fees, \$11.725m (2008: Nil) have been recognised as revenue in the current year. This represented the commencement of an exciting development for the TFS group as it seeks to diversify its reliance on MIS revenues. Both results demonstrated the strong underlying economic benefits that are attributable to the Indian sandalwood product being offered by TFS.

A further reason for the increase in profit relates to the integration of the Mt Romance business into the TFS group for the year. Mt Romance was acquired by the TFS group on 24 July 2008 and therefore the TFS group has recognised approximately 11 months of its results into its consolidated financial statements for the year ended 30 June 2009. This represented a net profit contribution after tax of \$1.585m and an earnings before interest, tax and depreciation ("EBITDA") of \$3.362m. The full year equivalent result for the Mt Romance group was an EBITDA of \$3.573m.

The result for Mt Romance is down from earlier forecasted EBITDA for the full year of \$5.1m. The major reason for this was the deferral of contracted sales to a major customer, following softer global conditions in the French perfumery industry. Despite this deferral, the major customer has agreed to purchase 8 tonnes of Australian sandalwood oil from Mt Romance over then next 2 years, thereby confirming the strong market position of the Mt Romance product.

As a result of the operations described above, the TFS Group's net profit after tax for the financial year that resulted from operations that bring current 'cash' resources to the group was \$23.286m (2008: \$19.494m). This represents an increase of 19.5%. If the change to the accounting policy was not made, then the consolidated net profit after tax that resulted from operations that bring current 'cash' resources to the group would have been \$25.511m (2008: \$22.932m) an increase of 11.2%.

The other reason for the rise in profit related to higher 'non cash' revenues from an increase in the sandalwood tree valuation and the recognition of revenue from deferred fees. Both of these items represent the growing future resource that is being built up by the TFS group from its direct ownership of Indian sandalwood plantations and its indirect deferred interest in investors plantations.

The total revenues of the Group for the period were \$94.852m (2008: \$62.458m) of which \$8.009m (2008: \$2.068m) related to the gain recognised on revaluation of the portion of the company's sandalwood tree plantation that TFS owns in its own right. The after tax impact of the tree revaluation on the net profit of the company was \$5.606m (2008:\$1.447m). Revenue for the year also includes \$8.494m (2008: \$4.574m) in respect of fees earned during the period but yet to be invoiced in connection with the company's deferred lease and management fee products. The after tax impact of this revenue recognition policy on the net profit of the company was \$5.946m (2008:\$3.202m).

Total operating costs (excluding amortisation, depreciation, financing costs and the provision for impairment movement) for the company (excluding operating costs attributable to the Mt Romance group) increased by 18.9% when compared to the corresponding year. This primarily reflects the continued increase in the scale of the group's land preparation, nursery infrastructure, planting and land maintenance activities, and is a consequence of the progressive increase in plantation sales.

#### **Outlook**

Notwithstanding current global conditions, current demand for Indian and Australian sandalwood remains strong, and the prospect for future increased consumption appears very bright. In particular, as TFS and its JV partners continue to explore opportunities in the Middle East and Northern African ("MENA") area and the subcontinent, the size and depth of the market for Santalum Album (i.e. Indian sandalwood) oil in end products such as pan and moth fresheners becomes increasingly apparent.

The company is also cautiously optimistic regarding the broader global economic recovery that will further assist MRA and the ongoing demand for Indian sandalwood oil from large French perfumeries.

# **TFS CORPORATION LTD**

## **RESULTS FOR ANNOUNCEMENT TO MARKET FOR THE YEAR ENDED 30 JUNE 2009**

### **Commentary Con't**

The underlying global prices for both Indian and Australian sandalwood have remained relatively stable during the period despite the economic conditions. Significant fluctuations in exchange rates during the year have made it difficult to track an underlying Australian and US dollar price for sandalwood oil. The US dollar price of Indian sandalwood oil as quoted by Public Ledger has decreased to US\$1,700 per kg for Indian sandalwood from a high of US\$1,995, however some of this drop may have been attributable to a strengthening US dollar as compared to other major trading currencies for sandalwood rather than the underlying sandalwood price. The Australian dollar prices for Australian sandalwood have remained stable throughout the year despite the fluctuating value of the Australian dollar relative to other currencies. We would expect that the underlying price of both Indian and Australian sandalwood oil should strengthen as the global economic conditions improve.

The success of TFS to date has primarily been underpinned by the positive supply and demand dynamic that is associated with the global sandalwood market and TFS's unique position in that market. We see that position has having strengthened despite the current economic conditions. This is particularly so, following our key strategic alliances we have made through our joint venture with the Emirates Investment Group ("EIG") and the acquisition of Mt Romance.

The immediate priority for the TFS group is to continue driving future investment from non-MIS institutional investors through the new Beyond Carbon project and its joint venture with EIG. As a result MIS investment is expected to be further diluted in the 2010 financial year and beyond. TFS understand and appreciates the support provided by the MIS sector and will continue to be a participant in that sector, however it views a move away from reliance on MIS as a natural progression of its business model.

The MIS sector currently still has a number of challenges ahead and is expected to undergo a number of changes throughout the year as a result of various enquiries and internal industry regulation. Despite these difficulties we still see a future for sandalwood related MIS projects within TFS as the supply demand dynamic remains strong.

### **Balance Sheet and Cashflow**

The TFS balance sheet remains strong, with net debt at 30 June 2009 of only \$26.732m, which represents a gearing ratio of 16.52% (net debt / net debt + equity). The net debt position is however higher than earlier forecast as a result of the reduced cashflows from MIS sales for the year and the payment arrangement granted for Beyond Carbon.

The net tangible asset backing per ordinary share at 30 June 2009 was 60.04 cents which has increased by 8.1% from the prior year of 55.52 cents per share. If the change to the accounting policy was not made, then the net tangible asset backing per ordinary share at 30 June 2009 would have been 66.18 cents (2008: 60.60 cents) an increase of 9.2%.

TFS currently has a non current loan book of A\$28m of which up to \$13.5m is being negotiated for sale. Due to the nature of the existing credit and securitisation markets the progress of this sale has been delayed and is not expected to crystallise until the second half of FY 2010.

### **Land Bank**

As at 30 June 2009 the group has approximately 2,600 hectares of available land that is considered suitable for planting sandalwood.

The company is also pleased to announce that on 27 July 2009 the company entered into an agreement with Consolidated Pastoral Company Ltd ("CPC") to conduct exclusive due diligence on up to 8,000 hectares of prime agricultural land in the Ord, Kununurra on the Carlton Plains property. The land sits adjacent to TFS's current Western Australian Indian sandalwood plantations and subject to extensive due diligence including mapping, soil testing, engineering design and water applications, the proposed site would be suitable for the long term land requirements of the company for non MIS institutional investment through beyond Carbon.

Under agreement TFS has been granted a first right of refusal to lease or purchase the freehold property should CPC wish to lease or sell the property within a period of 12 months after due diligence has been completed.

# **TFS CORPORATION LTD**

## **RESULTS FOR ANNOUNCEMENT TO MARKET FOR THE YEAR ENDED 30 JUNE 2009**

### **Commentary Con't**

#### **Land Revaluation**

The directors have continued to keep the value of the land that it owned in the prior year at the same value that was reflected as at 30 June 2008. This is supported by subsequent independent valuations and assessments of value by the directors.

Based on an independent valuation obtained the directors have however chosen to revalue the property that it acquired as part of the Mt Romance acquisition. This has resulted in a net after tax increase of \$0.482m to the value of the group's land assets.

#### **Joint Venture with Emirate Investment Group**

The company has previously announced its joint venture agreement with the Emirates Investment Group who are based in the UAE. The joint venture parties TFS and EIG, have now incorporated a joint venture company called Gulf Natural Supply ("GNS"). GNS has commenced feasibility on producing manufactured sandalwood based mouth freshener products for the markets in Pakistan and the Middle East & Northern Africa ("MENA"), and analysis to date suggests the markets are very large with a strong demand for premium products containing natural sandalwood oil.

GNS will also act as the exclusive distributor for MRA wholesale products in the Pakistan and MENA region and is expected to expand MRA's distribution into these regions.

#### **Beyond Carbon**

As detailed above, the TFS group has for the first time this year marketed and sold a new non MIS product aimed at institutional investors called Beyond Carbon.

For the 30 June 2009 year a group has applied for and been issued 50 units in the inaugural beyond carbon Unit Trust ("BCUT"), thereby committing to an initial investment of A\$50m. A deferred settlement of the subscription price for this initial offering has been granted by the BCUT and indirectly by TFS until April 2010. The initial applicant is also able to transfer the original units to other investors before payment of the subscription price. It is currently their intention to transfer their units prior to payment of the subscription price to other parties who have expressed a desire to take up an entitlement in the BCUT units.

As a result of this investment in the BCUT, the BCUT has entered into an agreement with TFS for the establishment of 350 Ha of new plantation to be completed in the planting season of 2010. The plantation will be on freehold land that has already been prepared and will be transferred to BCUT under the terms of the Beyond Carbon investment. The land will be sold for \$15,000 per ha (total investment of \$5.25m). The BCUT has committed to pay \$85,000 per hectare or \$29.75m (exclusive of GST) in total for the establishment of the plantation and its ongoing maintenance. Of the initial contract fee of \$85,000 per ha, TFS treats \$50,000 per Ha as relating to the establishment of the plantation being \$17.5m in the 30 June 2009 year. Of this amount, TFS has recognised \$11.725m as revenue in the current year based on the revenue recognition principle, while the remaining amount of \$5.775m will be recognised on completion of the establishment services in the following year. The remaining amount of the initial contract price of \$35,000 per Ha represents the prepaid portion of the ongoing maintenance of the Beyond Carbon plantations and will be recognised over the life of the project.

The remaining investment in the BCUT of \$15m will be applied towards the purchase of mature Indian sandalwood lots from the secondary market.

#### **Dividend**

Based on the company's result for the 30 June 2009 financial year, TFS is pleased to announce the continued payment of a fully franked final dividend to 3.0 cents per share (FY08: 3.0 cents), payable on 22 December 2009 with a record date of 2 December 2009.

After taking into account the interim dividend that has already been paid of 1.25 cents per share (FY08: 1.0 cents) this represents an overall increase of 6% on the dividend paid in the prior year.

# TFS CORPORATION LTD

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

			NOTE	ECONOMIC ENTITY	
				2009	2008
				\$'000	\$'000
Dividends received				11	-
Revenue		2		86,349	61,237
Other income				8,493	2,221
Raw materials and consumables used				( 5,527)	-
Depreciation and amortisation expenses				( 1,369)	( 781)
Finance costs				( 1,128)	( 965)
Interest paid				( 1,980)	( 1,430)
Unrealised interest swap gain / (loss)				( 427)	-
Unrealised foreign exchange gain / (loss)				( 8)	-
Salaries and employees benefits expense				( 11,454)	( 8,517)
Consulting expense				( 1,385)	( 862)
Bad debts (expense) / recovered				( 1)	2
Provision for impairment of receivables				( 1,398)	( 165)
Commissions				( 6,193)	( 5,070)
Marketing costs				( 2,167)	( 1,760)
Direct plantation and nursery operations				( 3,228)	( 3,625)
Rent / lease costs				( 3,674)	( 1,367)
Water				( 456)	( 259)
Repairs & maintenance				( 870)	( 830)
Travel & Accomodation				( 1,178)	( 944)
Insurance				( 521)	( 306)
Other expenses from ordinary activities				( 2,903)	( 2,523)
Share of net profits of associates				33	-
<b>Profit/(Loss) before income tax expense</b>				49,016	34,055
Income tax expense relating to ordinary activities				( 14,178)	( 9,912)
<b>Profit/(loss) from continuing operations</b>				34,838	24,143
Profit from discontinued operations				-	-
<b>Profit for the period</b>				34,838	24,143
Profit attributable to minority interest				-	-
<b>Profit attributable to members of the parent entity</b>				34,838	24,143
Earnings per share - Basic (cents per share)			20	18.40	13.09
- Dilued (cents per share)			20	18.31	13.07

The accompanying notes form part of these financial statements

# TFS CORPORATION LTD

## CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2009

			NOTE	ECONOMIC ENTITY	
				2009	2008
				\$'000	\$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents				38,715	16,901
Trade and other receivables			3	50,015	38,265
Inventories			4	6,911	822
<b>TOTAL CURRENT ASSETS</b>				<b>95,642</b>	<b>55,989</b>
<b>NON CURRENT ASSETS</b>					
Trade and other receivables			5	33,305	13,760
Other financial assets			6	6,232	3,209
Property, plant and equipment			7	69,022	58,494
Deferred tax assets				5,584	4,933
Biological assets			8	30,949	21,988
Intangible Assets			9	20,252	478
Investments accounted for using the equity method			10	392	-
Other			11	24,465	11,937
<b>TOTAL NON-CURRENT ASSETS</b>				<b>190,200</b>	<b>114,799</b>
<b>TOTAL ASSETS</b>				<b>285,842</b>	<b>170,788</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables			12	19,299	13,088
Financial liabilities			14	394	538
Current tax liabilities				11,352	7,969
Provisions			13	780	302
Unearned income			15	17,239	14,065
<b>TOTAL CURRENT LIABILITIES</b>				<b>49,064</b>	<b>35,962</b>
<b>NON CURRENT LIABILITIES</b>					
Financial liabilities			16	65,054	11,141
Deferred tax liabilities				21,646	15,991
Unearned income			17	14,994	3,242
<b>TOTAL NON-CURRENT LIABILITIES</b>				<b>101,694</b>	<b>30,373</b>
<b>TOTAL LIABILITIES</b>				<b>150,758</b>	<b>66,336</b>
<b>NET ASSETS</b>				<b>135,084</b>	<b>104,452</b>
<b>EQUITY</b>					
Issued capital			18	43,014	39,665
Asset revaluation reserve				14,975	14,493
Option reserve				478	478
Retained profit/(loss)				76,617	49,816
<b>TOTAL EQUITY</b>				<b>135,084</b>	<b>104,452</b>

The accompanying notes form part of these financial statements.

## TFS CORPORATION LTD

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	Share Capital \$'000	Retained Profits \$'000	Asset Revaluation \$'000	Option Reserve \$'000	Total \$'000
<b>Balance at 1.7.2007</b>		16,890	32,142	4,014	-	53,045
Shares issued during the period		22,776	-	-	-	22,776
Options issued during the year		-	-	-	478	478
Adjustments to opening retained profits		-	-	-	-	-
Movement in revaluations during the year		-	-	10,479	-	10,479
Profit for period		-	24,143	-	-	24,143
<b>Sub-Total</b>		39,665	56,285	14,493	478	110,921
Dividends provided for or paid		-	( 6,469)	-	-	( 6,469)
<b>Balance at 30.6.2008</b>		39,665	49,816	14,493	478	104,452
<b>Balance at 1.7.2008</b>		39,665	49,816	14,493	478	104,452
Shares issued during the year		3,349	-	-	-	3,349
Options issued during the year		-	-	-	-	-
Adjustments to opening retained profits		-	-	-	-	-
Movement in revaluations during the year		-	-	482	-	482
Profit for period		-	34,838	-	-	34,838
<b>Sub-Total</b>		43,014	84,654	14,975	478	143,121
Dividends provided for or paid		-	( 8,037)	-	-	( 8,037)
<b>Balance at 30.6.2009</b>		43,014	76,617	14,975	478	135,084

The accompanying notes form part of these financial statements.

# TFS CORPORATION LTD

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

			NOTE	ECONOMIC ENTITY	
				2009	2008
				\$'000	\$'000
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>					
Receipts from operations				98,252	56,939
Payments to suppliers				( 51,152)	( 28,128)
Net (provision)/repayment of loans to/from growers				( 28,997)	5,317
Interest received				1,927	2,302
Dividends received				11	-
Interest paid				( 1,980)	( 1,430)
Income tax paid				( 6,818)	( 7,912)
			19	<u>11,243</u>	<u>27,088</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant & equipment				4	121
Payments for plant & equipment				( 2,573)	( 1,857)
Receipts / (payments) for investments				( 3,078)	( 3,107)
Payments for land & buildings				( 1,631)	( 17,177)
Acquisition of subsidiary (net of cash acquired)				( 8,280)	-
				<u>( 15,559)</u>	<u>( 22,020)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>					
Proceeds from borrowings				61,238	7,000
Repayments of borrowings				( 27,854)	( 13,830)
Net proceeds/ (repayments) from securitisation facility				-	( 4,407)
Proceeds from issue of shares				( )	19,820
Dividends paid				( 7,028)	( 5,553)
				<u>26,357</u>	<u>3,031</u>
<b>Net increase / (decrease) in cash held</b>				22,041	8,099
<b>Cash at beginning of financial year</b>				16,671	8,573
<b>Cash at end of financial year</b>			19	<u>38,712</u>	<u>16,671</u>

The accompanying notes form part of these financial statements.

**TFS CORPORATION LTD**  
**A.B.N. 97 092 200 854**  
**AND CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF ACCOUNTING POLICIES**

The preliminary financial report has been prepared in accordance with ASX Listing Rule 4.3A. The preliminary financial report does not include notes of a type normally included in an annual financial report.

The preliminary financial report is presented as a consolidated report for TFS Corporation Ltd and its controlled entities as an economic entity. TFS Corporation Ltd is a company limited by shares, incorporated and domiciled in Australia.

The financial statement has been prepared on an accruals basis and is based on historical costs, except for the group's sandalwood tree plantations (which are self-generating and regenerating assets). This report does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

**Basis of Preparation**

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

***Reporting Basis and Conventions***

The financial report has been prepared on an accruals basis and is based on historical costs, except for the group's sandalwood tree plantations (which are biological assets) and land. This report does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

**Accounting Policies**

**(a) Principles of Consolidation**

A controlled entity is any entity controlled by TFS Corporation Ltd. Control exists where TFS Corporation Ltd has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with TFS Corporation to achieve the objectives of TFS Corporation Ltd.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Where a controlled entity has entered or left the economic entity during the year, its operating results have been included from the date control was obtained or until the date control ceased.

**Business Combinations**

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities, and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (Continued)**

**(b) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

**(c) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount, or the amount due, less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The amount provided for is the portion deemed uncollectible after the value of trees as security has been taken into account. Bad debts are written off as incurred. Amounts due from growers are recognised and carried at the amount stated in the loan agreement plus accrued interest, less any principal repayments received.

**(d) Inventories**

Inventories are measured at the lower of cost and net realisable value.

Raw materials are valued at weighted average cost. Work in progress and finished goods are valued at weighted average cost of direct materials and an appropriate portion of fixed and variable overhead expenses

Inventories consist of tree seedlings and seed stock intended for sale as part of the woodlots, which form the managed investments, by a wholly owned subsidiary of the parent company. It also includes stock of sandalwood related products and raw materials which are available for sale..

**(e) Impairment of Assets**

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

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

**(f) Property plant and equipment**

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

*Plant & Equipment*

Plant and equipment are measured on the cost basis.

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

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

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

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

*Depreciation*

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

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

Buildings	2%
Leasehold improvements	10-20%
Plant and equipment	5-33%

An asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

*Property*

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

The revaluation of freehold land and buildings has taken into account the potential tax on capital gains on sale of assets.

**(g) Biological Assets**

The consolidated entity has interests in sandalwood tree plantations (the biological assets) through plantation areas established and maintained on its own account and interests in some of the managed investment schemes which have reverted to the consolidated entity as a result of default by an original grower and forfeiture of their plantation interest.

Sandalwood trees are measured at the Director's assessment of their net market value at each reporting date. The net market value is determined as being the net present value of the expected future cash flows (discounted at a risk adjusted rate).

Net increments or decrements in the market value of the sandalwood trees are recognised as revenues or expenses in the statement of financial performance, determined as:

The difference between the total net market values of the trees recognised as at the beginning of the period and the total net market values of the trees recognised as at the reporting date.

Costs incurred in maintaining or enhancing trees are recognised as expenses when incurred. Therefore, those costs are not included in the determination of the net increment in net market values.

**(h) Trade and Other Payables**

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest is recognised as an expense on an accruals basis. Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

**(i) Leases**

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

Finance leases or Hire Purchase arrangements are capitalised by recording an asset and a liability at the lower of the amounts equal to fair value of the leased property or the present value of the minimum lease payments. Lease payments are allocated between the reduction of the lease or hire purchase liability and the lease interest for the period.

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

**(j) Borrowings**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

**(k) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. All revenue is stated net of the amount of goods and services tax (GST). The following specific recognition criteria must also be met before revenue is recognised:

*Operating Revenue*

- Establishment fee revenues in connection with sale of timber lots under an MIS project or under other timberlot establishment contracts for are recognised in proportion to the establishment work performed at balance date. In arriving at the proportion of work performed to balance date all activities relating to product development, marketing and distribution, land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account.
- Lease and Management Fees are recognised as revenue in the period to which they relate.
- Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods. For export sales revenue from sales made on commercial terms is recognised when title for the commodity transfers to the customer.

*Deferred lease & management fees – Accrued Income receivable*

The consolidated entity sells plantation investments where the investor has the option to pay lease and management fees either (i) annually, (ii) in advance as a prepayment, or (iii) to defer the payment of these fees as a proportion of the net harvest proceeds. The recognition of the deferred fees are classified as accrued income receivable in the financial statements.

Accrued income receivable is calculated as the amount of lease and/or management fees that would have been received up to balance date by the company under the annual payment option had they not been deferred. The balance of the accrued income receivable should however not exceed the sum of the net present value of future revenues, which is calculated by multiplying the expected net harvest proceeds from the investors plantations by the groups proportional entitlement to those revenues as agreed with the investors. The key assumptions used in calculating the future revenues and their present day value are as follows:

- (i) the expected yield of the product is calculated by reference to information provided by forestry experts;
- (ii) 100% of the trees will be harvested and sold within 13 to 15 years of being planted;
- (iii) The price of the Indian Sandalwood represents the current anticipated selling price and is constant in real terms;
- (iv) The costs expected to arise on harvest are constant in real terms;
- (v) The pre-tax average real rate at which the anticipated revenues have been discounted is between 15%-17% per annum.

The movement in the value of the accrued income receivable from period to period is brought to account as revenue from ordinary activities.

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

*Interest Revenue*

Interest revenue is recognised when control of a right to receive interest has been attained.

*Dividend Revenue*

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

**(l) Unearned Income**

The unearned portion of the establishment fees that are not recognised as revenue for the year based on the percentage of completion method disclosed at Note 1(k) is deferred as unearned income.

Prepaid lease and management fees are treated as earned based on time (over the term of the project) as this is considered to closely approximate services provided. The unearned portion is deferred as unearned income.

**(m) Income Tax**

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be which deductible temporary differences can be utilised.

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

TFS Corporation Ltd and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group nominated to become consolidated for taxation purposes on 1 July 2003.

**(n) Goods and Services Tax (GST)**

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

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

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

**(o) Employee Benefits**

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries and annual leave, which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for these benefits. Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

**(p) Earnings per share**

Basic earnings per share is determined by dividing the net result after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

**(q) Financial Instruments**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances valuation techniques are adopted.

Amortised cost is calculated as;

- a. The amount at which the financial asset or financial liability is measured at initial recognition;
- b. Less principal payments;
- c. Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. Less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit and loss.

The Group does not designate any interest in subsidiaries, associates or joint ventures as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

*Financial assets at fair value through profit and loss*

A financial asset is classified in this category when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluations where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with change in carrying value being included in profit or loss.

*Loans and receivables*

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

*Held-to-maturity investments*

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

*Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Fair value**

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

**Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

**(r) Investments in Associates**

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

**(s) Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(t) Borrowing costs**

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

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

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

**(u) Comparative Figures**

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

**(v) Intangibles**

*Supply Agreements*

Supply Agreements are recognised at cost of acquisition. The supply agreements have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. The supply agreements will be amortised over the life of the agreement.

*Research and Development*

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

*Goodwill*

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**(w) Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**(x) Rounding of Amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

**(y) Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the group.

*Key Estimate and Judgement – Provision for Impairment of Receivables*

The group assesses the likelihood of any impairment of the company's receivables (including within the loan book) at each reporting date by evaluating those payments that are in arrears and making a judgement as to the likelihood of that receivable not being paid based on all knowledge available of the debtor. When recovery is assessed as doubtful, the group estimates by how much the security held by the company against the receivable will be insufficient to adequately cover the debt and records a provision accordingly. The total provision for impairment of receivables at year end are shown in Notes 3 and 5.

*Key Estimate – Biological Asset valuation*

As referred to in Note 1(g), as required under the accounting standards the directors make an estimate as to the market value of the standing sandalwood trees held by the group. The carrying value of the sandalwood trees at year end is shown in Note 8. The market value is calculated as the net present value of expected future cashflows. The estimates used in calculating the expected future cashflows include assumptions on yields in terms of survival rates of trees, and heartwood and oil content of the trees, as well as assumptions as to the future price of the heartwood logs. All estimates are based on the best information currently available and where there is any doubt the group uses the more conservative estimates.

*Key Estimate – Accrued Income Receivable*

As detailed in Note 1(k) the group recognises an estimate of future earnings from deferred fees as accrued income receivable in the financial statements.

Accrued income receivable is calculated as the amount of lease and/or management fees that would have been received up to balance date by the company under the annual payment option had they not been deferred. The balance of the accrued income receivable should however not exceed the sum of the net present value of future revenues, which is calculated by multiplying the expected net harvest proceeds from the investors plantations by the groups proportional entitlement to those revenues as agreed with the investors. The carrying value of the accrued income receivable at year end is shown in Note 11.

*Key Estimate – Land valuation*

At year end the directors are required to make an assessment as to the market value of land held. The estimate of the market valuation has been based upon an independent market appraisal. The value of land at year end is shown in Note 7.

*Key Estimate – Taxation*

Balances disclosed in the financial statements and the notes thereto, related to taxation are based on the best estimates of directors. These estimates take into account both the financial performance and position of the company as they pertain to current income tax legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

*Key Judgement – Environmental issues*

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation and the directors understanding thereof. At the current stage of the company's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

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**NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)**

**(z) Change in Accounting Policy**

The economic entity changed its accounting policy in relation to the recognition of its establishment fee revenue for the year ended 30 June 2009. Establishment fees were previously fully recognised in the year that the application or contract was entered into. The economic entity has now chosen for establishment fee revenues in connection with sale of timber lots under an MIS project or under other timberlot establishment contracts to be recognised in proportion to the establishment work performed at balance date. In arriving at the proportion of work performed to balance date all activities relating to product development, marketing and distribution, land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account.

The aggregate effect of the change in accounting policy on the annual financial statements for the year ended 30 June 2009 and prior year periods is as follows.

	2009			2008		
	Previously Stated \$'000	Adjustment \$'000	Restated \$'000	Previously Stated \$'000	Adjustment \$'000	Restated \$'000
<b>ECONOMIC ENTITY</b>						
<b>Income Statement</b>						
Revenue	90,168	( 3,819)	86,349	66,147	( 4,911)	61,237
Profit/(loss) before income tax	52,194	( 3,178)	49,016	38,966	( 4,911)	34,055
Profit for year	37,063	( 2,225)	34,838	27,581	( 3,438)	24,143
Earnings per share (Basic) (cents)	19.58	1.18	18.40	14.96	1.86	13.09
Earnings per share (Diluted) (cents)	19.47	1.17	18.31	14.93	1.86	13.07
<b>Balance Sheet</b>						
Unearned income - Current	464	16,775	17,239	468	13,597	14,065
Unearned income - Non Current	14,994	-	14,994	3,242	-	3,242
Deferred tax asset	2,214	3,369	5,584	854	4,079	4,933
Current tax liability	13,015	( 1,663)	11,352	7,969	-	7,969
Adjustment to opening retained earnings	59,334	( 9,518)	49,816	38,222	( 6,080)	32,142

**(aa.) New Accounting Standards for Application in Future Periods**

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:
  - acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
  - contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
  - a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
  - there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.
- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.
- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.
- AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

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				<b>ECONOMIC ENTITY</b>	
				<b>2009</b>	<b>2008</b>
				<b>\$'000</b>	<b>\$'000</b>
<b>NOTE 2: REVENUE</b>					
Revenue from operating activities:					
Revenue from services				73,463	57,600
Revenue from product sales				11,299	129
Revenue from farming operations				145	1,392
Interest on loans (a)				1,442	2,116
Total sales revenue				<u>86,349</u>	<u>61,237</u>
Other income:					
Interest received				485	186
Profit / (Loss) on disposal of plant & equipment				( 1)	( 33)
Gain on agriculture produce				( 21)	( 10)
Gain on revaluation of plantations				8,030	2,078
Total other income				<u>8,493</u>	<u>2,221</u>
<b>NOTE 3: TRADE AND OTHER RECEIVABLES (CURRENT)</b>					
Trade Debtors				41,035	37,580
Provision for impairment of receivables				( 2,850)	( 547)
				<u>38,185</u>	<u>37,033</u>
Loans to growers				11,507	1,032
Bonds & deposits				40	40
Prepayments				282	160
				<u>50,015</u>	<u>38,265</u>
<b>NOTE 4: INVENTORIES (CURRENT)</b>					
Sandalwood Oil				55	55
Finished goods				6,481	-
Seedlings at Cost				213	371
Seed Stock				159	180
Harvested trees (FPC)				42	42
Cut hay				-	89
Raw materials				27	85
Provision for obsolete stock				( 65)	-
				<u>6,911</u>	<u>822</u>
<b>NOTE 5: TRADE AND OTHER RECEIVABLES (NON-CURRENT)</b>					
Loans to growers				28,471	9,950
Less: Provision for impairment of receivables				-	( 33)
				<u>28,471</u>	<u>9,918</u>
Loans to employees under share acquisition plan				4,834	3,842
Total Receivable (Non Current)				<u>33,305</u>	<u>13,760</u>

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			<b>2008</b>	<b>2007</b>
			<b>\$'000</b>	<b>\$'000</b>
<b>NOTE 6: OTHER FINANCIAL ASSETS (NON-CURRENT)</b>				
Forward exchange contracts - hedges			77	-
Interest rate swaps			13	-
Cash Deposit - First Loss Account			6,141	3,209
			<b>6,232</b>	<b>3,209</b>
<b>NOTE 7: PROPERTY, PLANT &amp; EQUIPMENT</b>				
Plant & Equipment - at cost			15,515	7,348
Less: Accumulated depreciation			( 5,428)	( 2,133)
Total plant & equipment			<b>10,087</b>	<b>5,215</b>
Land & Buildings at directors valuation			59,130	53,286
Land & Buildings at cost			-	-
Less: Accumulated amortisation			( 196)	( 7)
Total property			<b>58,935</b>	<b>53,279</b>
Total property, plant & equipment			<b>69,022</b>	<b>58,494</b>
<b>NOTE 8: BIOLOGICAL ASSETS</b>				
At cost:				
Opening balance			1,808	1,460
Additions			931	348
Closing Balance			<b>2,739</b>	<b>1,808</b>
At market value:				
Opening balance			20,180	18,102
Increments / (Decrements)			8,030	2,078
Closing balance			<b>28,210</b>	<b>20,180</b>
Net book value			<b>30,949</b>	<b>21,988</b>
<b>NOTE 9: INTANGIBLE ASSETS</b>				
Goodwill:				
Cost			19,774	-
Accumulated impaired losses			-	-
Net carrying value			<b>19,774</b>	<b>-</b>
Supply agreements:				
Cost			478	478
Accumulated impaired losses			-	-
Net carrying value			<b>478</b>	<b>478</b>
Total intangibles			<b>20,252</b>	<b>478</b>

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			<b>2009</b>	<b>2008</b>
			<b>\$'000</b>	<b>\$'000</b>
<b>NOTE 10: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD</b>				
Associated companies			392	-
			<u>392</u>	<u>-</u>
<b>NOTE 11: OTHER ASSETS</b>				
Water rights			1	1
Option over land			-	-
Accrued income receivable			20,431	11,936
			<u>20,431</u>	<u>11,937</u>
Land preparation costs			4,232	198
Less: Provision for Amortisation			( 198)	( 198)
			<u>4,034</u>	<u>-</u>
Total Other Assets			<u>24,465</u>	<u>11,937</u>
<b>NOTE 12: TRADE AND OTHER PAYABLES (CURRENT)</b>				
Unsecured:				
Trade Creditors			2,762	1,363
Goods & services tax payable			6,629	4,130
Dividends Payable			143	184
Other creditors and accrued expenses			9,764	7,411
			<u>19,299</u>	<u>13,088</u>
<b>NOTE 13: PROVISIONS (CURRENT)</b>				
Employee entitlements			780	302
			<u>780</u>	<u>302</u>
<b>NOTE 14: FINANCIAL LIABILITIES (CURRENT)</b>				
Secured:				
Bank overdraft			3	230
Hire purchase liability			390	308
Borrowing secured by mortgage			-	-
			<u>394</u>	<u>538</u>
<b>NOTE 15: UNEARNED INCOME (CURRENT)</b>				
Unearned income			17,239	14,065
			<u>17,239</u>	<u>14,065</u>

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			<b>2009</b>	<b>2008</b>
			<b>\$'000</b>	<b>\$'000</b>
<b>NOTE 16: FINANCIAL LIABILITIES (NON CURRENT)</b>				
Secured:				
Hire purchase liability			1,843	641
Borrowing secured by mortgage			63,210	10,500
Loan Book Securitisation Facility			-	-
			<b>65,054</b>	<b>11,141</b>
<b>NOTE 17: UNEARNED INCOME (NON CURRENT)</b>				
Unearned Income			14,994	3,242
			<b>14,994</b>	<b>3,242</b>
<b>NOTE 18: ISSUED CAPITAL</b>				
Issued ordinary fully paid with no par value 191,272,208 (30.06.08: 187,278,488)			43,014	39,665
			<b>2009</b>	<b>2008</b>
			<b>No.</b>	<b>No.</b>
Ordinary shares				
At beginning of the period			187,278,488	162,065,036
Shares issued during the year				
- 3 July 2007			-	17,000,000
- 3 August 2007			-	5,554,855
- 30 November 2007			-	735,212
- 6 June 2008			-	1,689,400
- 20 June 2008			-	233,985
- 26 August 2008			1,048,618	-
- 28 November 2008			983,712	-
- 27 February 2009			1,477,300	-
- 27 February 2009			200,000	-
- 19 June 2009			284,090	-
At reporting date			<b>191,272,208</b>	<b>187,278,488</b>

The gearing ratio's for the current and past year ends are as follows.

			<b>2009</b>	<b>2008</b>
			<b>\$'000</b>	<b>\$'000</b>
Total borrowings			65,448	11,679
Less: Cash and cash equivalents			38,715	16,901
Net debt			26,732	( 5,222)
Total equity			135,084	104,452
Total capital			<b>161,816</b>	<b>99,230</b>
Gearing ratio			16.52%	-5.26%

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	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>NOTE 19: CASH FLOW INFORMATION</b>		
(i) Reconciliation of cash		
Cash balance comprises:		
Cash at bank	38,712	16,901
Cash on hand	4	
JV Cash at bank	-	
Cash balance as per balance sheet	<u>38,715</u>	<u>16,901</u>
Less: Overdraft	( 3)	( 230)
Cash balance as per cash flow statement	<u>38,712</u>	<u>16,671</u>
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
(ii) Reconciliation of operating profit after income tax to the net cash flow provided by operating activities.		
Operating profit / (loss) after income tax	34,838	24,143
Add/(less) non-cash items:		
Depreciation and amortisation	1,369	781
Share of net profits from associates	( 33)	-
Tax adjustment taken direct to equity/ARR	<u>( 207)</u>	<u>( 4,347)</u>
Net cash provided by operating activities before change in assets and liabilities	35,968	20,577
Changes in operating assets and liabilities:		
Provision for taxation increase / (decrease)	2,984	1,002
Provision for impairment increase / (decrease)	2,270	163
Provision for deferred taxation increase / (decrease)	5,169	6,389
Future taxation benefit (increase) / decrease	( 585)	429
(Profit) / loss on sale of fixed assets	1	33
(profit) / loss on sale of investments	( 37)	( 205)
(Increase) / decrease in trade debtors	( 2,180)	( 8,314)
(Increase) / decrease in prepayments	( 67)	67
(Increase) / decrease in accrued income receivable	( 8,494)	( 4,574)
(Increase) / decrease in grower loans	( 28,997)	5,317
(Increase) / decrease in inventories	( 2,618)	173
(Increase) / decrease in sandalwood trees	( 8,961)	( 2,425)
(Increase) / decrease in land preparation	( 4,034)	( 3)
(Increase) / decrease in foreign exchange / swap contracts	435	-
Increase / (decrease) in trade creditors and provisions	5,463	4,949
Increase / (decrease) in unearned income	14,927	72
Net cash flow from operating activities	<u>11,243</u>	<u>23,651</u>

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	<b>Consolidated 12 months to 30 June 2009</b>	<b>Consolidated 12 months to 30 June 2008</b>
<b>NOTE 20: EARNINGS PER SHARE</b>	<b>\$'000</b>	<b>\$'000</b>
Earnings used in calculating basic and diluted earnings per share	34,838	24,143
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	189,314	184,417
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	190,314	184,772
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>NOTE 21 ACQUISITION OF SUBSIDIARIES</b>		
The parent entity acquired 100% of Mt Romance Holdings Ltd on 24 July 2008, a manufacturer and wholesale distributor of Australian sandalwood oil and related products. The purchase price was satisfied by the issue of 1,048,618 ordinary shares at an issue price of \$1.049 each and the payment of \$9,900,000. The issue was based on the market price at the date of purchase.		
The purchase price was allocated as follows:		
Purchase consideration	11,000	-
Cash consideration	9,900	-
Equity issued as consideration	1,100	-
Total Purchase	11,000	-
Fair value of assets acquired (see below)	4,915	-
Goodwill	6,085	-
Investment in subsidiary	11,000	-
Assets and liabilities held at acquisition date:		
Cash and cash equivalents	1,620	-
Receivables & other financial assets	1,921	-
Inventories	3,471	-
Property plant and equipment	5,299	-
Goodwill	13,689	-
Payables	( 2,152)	-
Borrowings	( 18,934)	-
Net assets acquired	4,915	-
Purchase consideration settled in cash	9,900	-
Cash and cash equivalents in subsidiary acquired	( 1,620)	-
Cash outflow on acquisition	8,280	-

**NOTE 22: INFORMATION ON AUDIT**

The financial statements are in the process of being audited.

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<b>NOTE 23: SEGMENT INFORMATION</b>										
The consolidated entity's operations involve the management and maintenance of forestry plantations and the provision of finance. All operations are conducted in Australia.										
Industry Segments	Plantation Management		Finance		Sandalwood products		Farming		Consolidation	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<i>Operating revenue</i>										
Establishment Fees (New sales)	60,247	49,478	-	-	-	-	-	-	60,247	49,478
Lease & management Fees	3,613	3,060	-	-	-	-	-	-	3,613	3,060
Accrued income recognition	8,494	4,574	-	-	-	-	-	-	8,494	4,574
Product sales	-	-	-	-	11,299	-	-	-	11,299	-
Sales of agriculture produce	-	-	-	-	-	-	145	1,392	145	1,392
Interest	485	186	1,442	2,116	-	-	-	-	1,927	2,302
Gain on revaluation of plantation	8,030	2,078	-	-	-	-	-	-	8,030	2,078
Other	1,098	575	-	-	-	-	-	-	1,098	575
<b>Total segment revenue</b>	<b>81,966</b>	<b>59,950</b>	<b>1,442</b>	<b>2,116</b>	<b>11,299</b>	<b>-</b>	<b>145</b>	<b>1,392</b>	<b>94,852</b>	<b>63,458</b>
Unallocated revenue									-	-
Revenue from ordinary activities									94,852	63,458
<b>Earnings before interest, tax, dep'n and amort'n (EBITDA)</b>	<b>48,206</b>	<b>34,788</b>	<b>1,899</b>	<b>1,897</b>	<b>3,362</b>	<b>-</b>	<b>26</b>	<b>546</b>	<b>53,493</b>	<b>37,231</b>
<b>Segment result before income tax</b>	<b>44,985</b>	<b>32,658</b>	<b>1,873</b>	<b>851</b>	<b>2,132</b>	<b>-</b>	<b>26</b>	<b>546</b>	<b>49,016</b>	<b>34,055</b>
Unallocated expenses									-	-
Income tax									(14,178)	(9,912)
<b>Consolidated entity operating profit after tax</b>									<b>34,838</b>	<b>24,143</b>
<b>Segment Assets</b>	<b>202,434</b>	<b>156,507</b>	<b>46,225</b>	<b>14,191</b>	<b>37,182</b>	<b>-</b>	<b>-</b>	<b>89</b>	<b>285,842</b>	<b>170,788</b>
<b>Segment Liabilities</b>	<b>87,678</b>	<b>56,851</b>	<b>39,652</b>	<b>9,485</b>	<b>23,427</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150,758</b>	<b>66,336</b>
Acquisitions of non-current segment assets	11,248	7,108	-	-	-	-	-	-	11,248	7,108
Depreciation and amortisation of segment assets	1,369	774	-	-	-	-	-	-	1,369	774
Other non-cash segment expenses	-	-	-	-	-	-	-	-	-	-

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**ATTACHMENT 'A' TO APPENDIX 4E**  
**SUMMARY OF RESULTS USING PREVIOUS ACCOUNTING METHOD**

The figures below represent a summary of the results for the TFS Corporation Ltd group if the directors had not chosen to change its revenue recognition policy. These are for illustrative purposes only.

				<b>ECONOMIC ENTITY</b>	
				<b>2009</b>	<b>2008</b>
	<b>Percentage Change</b>			<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>					
<b>Revenue (Cash*)</b>					
Revenue from new 'MIS' sales	Down	14.4%	to	46,566	54,389
Revenue from new 'institutional' sales	New			17,500	-
Revenue from recurring fees	Up	18.1%	to	3,613	3,060
Revenue from product sales	New			11,299	-
Interest revenue	Down	16.3%	to	1,927	2,302
Other revenue	Down	36.1%		1,264	1,977
<b>Revenue (Non-Cash*)</b>					
Revenue from recognition of deferred fees	Up	85.7%	to	8,494	4,574
Biological assets revenue	Up	287.3%	to	8,009	2,068
<b>Total Revenue from ordinary activities</b>	<b>Up</b>	<b>44.3%</b>	<b>to</b>	<b>98,671</b>	<b>68,369</b>
<b>EBITDA</b>					
Cash EBITDA	Up	13.1%	to	40,169	35,501
Non Cash EBITDA	Up	148.5%	to	16,503	6,642
<b>TOTAL EBITDA</b>	<b>Up</b>	<b>34.5%</b>	<b>to</b>	<b>56,671</b>	<b>42,142</b>
<b>Net Profit After Tax</b>					
Net Profit/(Loss) After Tax (Cash*)	Up	11.2%	to	25,511	22,932
Net Profit/(Loss) After Tax (Non Cash*)	Up	148.5%	to	11,552	4,649
<b>Net profit from ordinary activities after tax</b>	<b>Up</b>	<b>34.4%</b>	<b>to</b>	<b>37,063</b>	<b>27,581</b>
<b>MIS Product Sold</b>					
Hectares of MIS Product Sold	Down	16.7%	to	677.5	813.7
Hectares of wholesale product sold	New			350.0	0.0
	Up	26.3%	to	1027.5	813.7
<b>Earnings Per Share</b>					
				<b>2009</b>	<b>2008</b>
				<b>(cents)</b>	<b>(cents)</b>
Basic EPS	Up	30.9%	to	19.58	14.96
Diluted EPS	Up	30.2%	to	19.47	14.96
Cash* Diluted EPS	Up	8.6%	to	13.48	12.41
<b>Net Tangible Assets per Share</b>					
				<b>2009</b>	<b>2008</b>
				<b>(cents)</b>	<b>(cents)</b>
Net tangible asset backing per ordinary share	Up	9.2%	to	66.18	60.60