

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

APPENDIX 4E

**Preliminary Financial Report
For the year ended 30 June 2010**

TFS CORPORATION LTD

APPENDIX 4E PRELIMINARY FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

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TFS CORPORATION LTD

RESULTS FOR ANNOUNCEMENT TO MARKET FOR THE YEAR ENDED 30 JUNE 2010

Current reporting period

Year ended 30 June 2010

Previous corresponding period

Year ended 30 June 2009

				ECONOMIC ENTITY	
				2010	2009
	<u>Percentage Change</u>			<u>\$'000</u>	<u>\$'000</u>
Revenue					
Revenue (Cash*)					
Revenue from establishment fees (New sales)	Down	7.9%	to	55,481	60,247
Revenue from recurring fees	Up	68.6%	to	6,093	3,613
Revenue from product sales	Up	61.9%	to	18,289	11,299
Revenue from land sales	New			13,305	-
Interest revenue	Up	67.7%	to	3,231	1,927
Other revenue	Down	20.2%		1,008	1,264
Revenue (Non-Cash*)					
Revenue from recognition of deferred fees	Up	31.0%	to	11,131	8,494
Biological assets revenue	Down	0.7%	to	7,954	8,009
Total Revenue from ordinary activities	Up	22.8%	to	<u>116,492</u>	<u>94,853</u>
EBITDA					
Cash EBITDA	Up	12.1%	to	41,476	36,990
Non Cash EBITDA	Up	26.9%	to	<u>20,940</u>	<u>16,503</u>
TOTAL EBITDA	Up	16.7%	to	<u>62,416</u>	<u>53,493</u>
Net Profit After Tax					
Net Profit/(Loss) After Tax (Cash*)	Up	2.0%	to	23,749	23,286
Net Profit/(Loss) After Tax (Non Cash*)	Up	15.6%	to	<u>13,360</u>	<u>11,552</u>
Net profit from ordinary activities after tax	Up	6.5%	to	<u>37,109</u>	<u>34,838</u>
Comprehensive Income Net of Tax					
Comprehensive Income Net of Tax (Cash**)	New		to	2,971	-
Comprehensive Income Net of Tax (Non Cash**)	New		to	<u>1,298</u>	-
Comprehensive Income Net of Tax for the Year	New		to	<u>4,269</u>	-
Total Comprehensive Income for the Year After Tax					
Total Comprehensive Income for the Year (Cash)	Up	14.7%	to	26,720	23,286
Total Comprehensive Income for the Year (Non Cash)	Up	26.9%	to	<u>14,658</u>	<u>11,552</u>
Total Comprehensive Income for the Year After Tax	Up	18.8%	to	<u>41,378</u>	<u>34,838</u>
MIS Product Sold					
Hectares of MIS product sold	Down	55.0%	to	304.7	677.5
Hectares of wholesale product sold	Up	123.5%	to	<u>782.3</u>	<u>350.0</u>
	Up	5.8%	to	<u>1087.0</u>	<u>1027.5</u>

TFS CORPORATION LTD

RESULTS FOR ANNOUNCEMENT TO MARKET FOR THE YEAR ENDED 30 JUNE 2010

Earnings Per Share				2010 (cents)	2009 (cents)
Basic EPS (Based on Comprehensive Income)	Up	2.9%	to	18.93	18.40
Diluted EPS (Based on Comprehensive Income)	Up	3.0%	to	18.85	18.31
Cash Diluted EPS	Down	0.5%	to	12.17	12.24
Net Tangible Assets per Share				2010 (cents)	2009 (cents)
Net tangible asset backing per ordinary share	Up	28.1%	to	76.89	60.04
Dividends				Amount per share (cents)	Franked amount per share (cents)
Interim Dividend ('10) - paid				1.25	1.25
Final Dividend ('10) - declared				3.50	3.50
Total dividends paid / declared				4.75	4.75
				Record date	Payment date
Final dividend				1-Dec-10	22-Dec-10
Last date for receipt of Dividend Reinvestment Plan participation notice				1-Dec-10	

Definition of cash / Non Cash Revenue *

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).

Definition of cash / Non Cash Revenue - Comprehensive Income Net of Tax **

For the purpose of the above figures the term 'Cash' refers to profits recorded in the financial statements relating to the realization of land revaluation reserve, due to actual land sales for the year. The term 'Non-Cash' refers to profits recorded in the financial statements relating to the realization of land revaluation reserve due to an accounting reclassification of land as inventory (hold for resale), that should bring in cash resources in the future (e.g. on date of actual sale).

Annual General Meeting

The annual general meeting will be held as follows:

Location:	Sheraton Perth Hotel (Notice of meeting to be forwarded 28 days prior to meeting)
Date:	Tuesday 23 November 2010
Time:	9:00 AM

Commentary on Results

The Directors of TFS announce that the consolidated total comprehensive income of the economic entity for the year ended 30 June 2010 after providing for income tax amounted to \$41.378m (2009: \$34.838m), an increase of 18.8%. This represents diluted earnings per share of 18.85 cents (2009: 18.31 cents), an increase of 3% over the prior year.

TFS CORPORATION LTD

**RESULTS FOR ANNOUNCEMENT TO MARKET
FOR THE YEAR ENDED 30 JUNE 2010**

Commentary Con't

Full commentary on the results for the reporting period is contained in the ASX release dated 31 August 2010 accompanying this Report.

TFS CORPORATION LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	ECONOMIC ENTITY	
		2010 \$'000	2009 \$'000
Revenue	2	108,139	86,349
Other income	2	8,353	8,503
Raw materials and consumables used		(9,878)	(5,527)
Cost of land sold		(12,619)	-
Depreciation and amortisation expenses		(1,742)	(1,369)
Finance costs		(917)	(1,128)
Interest paid		(2,938)	(1,980)
Unrealised interest swap gain / (loss)		156	(427)
Unrealised foreign exchange gain / (loss)		(221)	(8)
Salaries and employees benefits expense		(11,483)	(11,454)
Consulting expense		(1,585)	(1,385)
Bad debts (expense) / recovered		(2)	(1)
Provision for impairment of receivables		(64)	(1,398)
Commissions		(5,485)	(6,193)
Marketing costs		(1,983)	(2,167)
Direct plantation and nursery operations		(5,906)	(3,228)
Rent / lease costs		(3,718)	(3,674)
Water		(642)	(456)
Repairs & maintenance		(1,234)	(870)
Travel & Accomodation		(1,181)	(1,178)
Insurance		(582)	(521)
Other expenses from ordinary activities		(3,937)	(2,903)
Share of net profits of associates		190	33
Profit/(Loss) before income tax expense		50,721	49,016
Income tax expense relating to ordinary activities		(13,612)	(14,178)
Profit/(loss) from continuing operations		37,109	34,838
Profit from discontinued operations		-	-
Profit for the year		37,109	34,838
Other comprehensive income			
Net gain on reclassification of land and buildings previously revalued		6,099	-
Share of other comprehensive income of associates		-	-
Income tax relating to components of other comprehensive income		(1,830)	-
Other comprehensive income for the period, net of tax		4,269	-
Total comprehensive income for the year		41,378	34,838
Profit attributable to:			
Members of the parent entity		37,109	34,838
		-	-
Total comprehensive income attributable to:			
Members of the parent entity		41,378	34,838
Earnings per share			
From continuing operations:			
Basic earnings per share (cents per share)	21	18.93	18.40
Diluted earnings per share (cents per share)	21	18.85	18.31

The accompanying notes form part of these financial statements

TFS CORPORATION LTD

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	NOTE	ECONOMIC ENTITY	
		2010 \$'000	2009 \$'000
CURRENT ASSETS			
Cash and cash equivalents		20,161	38,715
Trade and other receivables	3	86,937	50,015
Inventories	4	11,992	11,406
Derivatives	5	25	90
TOTAL CURRENT ASSETS		119,115	100,227
NON CURRENT ASSETS			
Trade and other receivables	6	44,481	33,305
Other financial assets	7	5,563	6,141
Property, plant and equipment	8	57,609	64,527
Deferred tax assets		3,344	5,584
Biological assets	9	41,520	30,949
Intangible assets	10	20,512	20,252
Investments accounted for using equity method	11	587	392
Other	12	41,163	24,465
TOTAL NON-CURRENT ASSETS		214,779	185,615
TOTAL ASSETS		333,894	285,842
CURRENT LIABILITIES			
Trade and other payables	13	20,845	19,299
Financial liabilities	15	706	394
Current tax liabilities		5,262	11,352
Provisions	14	1,015	780
Unearned income	16	15,272	17,239
TOTAL CURRENT LIABILITIES		43,100	49,064
NON-CURRENT LIABILITIES			
Financial liabilities	17	66,575	65,054
Deferred tax liabilities		26,625	21,646
Unearned income	18	2,253	14,994
TOTAL NON-CURRENT LIABILITIES		95,453	101,694
TOTAL LIABILITIES		138,553	150,758
NET ASSETS		195,341	135,084
EQUITY			
Issued capital	19	77,688	43,014
Asset revaluation reserve		8,751	14,975
Option reserve		478	478
Retained earnings		108,424	76,617
TOTAL EQUITY		195,341	135,084

The accompanying notes form part of these financial statements.

TFS CORPORATION LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

NOTE	Share Capital \$'000	Retained Profits \$'000	Asset Revaluation \$'000	Option Reserve \$'000	Total \$'000
Balance at 1.7.2008	39,665	49,816	14,493	478	104,452
Shares issued during the period	3,349	-	-	-	3,349
Movement in revaluations during the year	-	-	482	-	482
Total comprehensive income for the period	-	34,838	-	-	34,838
Sub-Total	43,014	84,654	14,975	478	143,121
Dividends provided for or paid	-	(8,037)	-	-	(8,037)
Balance at 30.6.2009	43,014	76,617	14,975	478	135,084
Balance at 1.7.2009	43,014	76,617	14,975	478	135,084
Shares issued during the year	34,674	-	-	-	34,674
Movement in revaluations during the year	-	-	(1,955)	-	(1,955)
Total comprehensive income for the period	-	41,378	(4,269)	-	37,109
Sub-Total	77,688	117,995	8,751	478	204,912
Dividends provided for or paid	-	(9,571)	-	-	(9,571)
Balance at 30.6.2010	77,688	108,424	8,751	478	195,341

The accompanying notes form part of these financial statements.

TFS CORPORATION LTD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	ECONOMIC ENTITY	
		2010 \$'000	2009 \$'000
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Receipts from operations		47,987	98,252
Payments to suppliers		(56,148)	(46,187)
Net (provision)/repayment of loans to/from growers		(6,027)	(28,997)
Interest received		3,231	1,927
Dividends received		-	11
Interest paid		(2,938)	(1,981)
Income tax paid		(11,197)	(6,818)
	20	(25,092)	16,208
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Proceeds from sale of property, plant & equipment		96	4
Payments for plant & equipment		(8,889)	(2,573)
Payments for investment in own trees		(2,566)	(931)
Payments for investments in land development		(5,567)	(4,034)
Receipts / (payments) for investments		912	(3,078)
Payments for land & buildings		(2,108)	(1,631)
Acquisition of subsidiary (net of cash acquired)		(260)	(8,280)
		(18,382)	(20,524)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from borrowings		41,575	61,239
Repayments of borrowings		(40,340)	(27,854)
Net proceeds/ (repayments) from securitisation facility		-	-
Proceeds from issue of shares		31,526	-
Dividends paid		(7,897)	(7,028)
		24,864	26,357
Net increase / (decrease) in cash held		(18,610)	22,041
Cash at beginning of financial year		38,712	16,671
Cash at end of financial year	20	20,102	38,712

The accompanying notes form part of these financial statements.

TFS CORPORATION LTD
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

The preliminary financial report is a general purpose financial report that 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 acquisition method.

The acquisition 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 statement of financial position.

(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 as well as some components of the company's land that has been identified for sale in the ordinary course of business.

(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 statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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 statement of comprehensive income.

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.

TFS CORPORATION LTD
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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

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 statement of comprehensive income during the financial period in which they are incurred.

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 the end of each reporting period.

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 statement of comprehensive income. 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.

Land will be transferred from being classified as property held for own use to inventory as and when it is determined that the land has been set aside for sale in the ordinary course of the company's business. On transfer the fair value of the land will become the deemed cost for inventory valuation purposes.

(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.

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

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.

(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

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

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.

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 end of the reporting period.

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.

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

(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.

(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.

TFS CORPORATION LTD
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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.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

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.

These investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

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.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

Financial Liabilities

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

Derivative instruments

(Insert company name) Listed Public limited and controlled Entities designates certain derivatives as either:

- i. Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii. Hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flows hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the statement of comprehensive income in the periods when the hedged item will affect profit or loss.

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.

(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.

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

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.

(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.

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

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.

(z) Adoption of New and Revised Accounting Standards

During the year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of TFS Corporation Listed Public Limited.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

Under AASB 8, operating segments are determined based on management reports using the ‘management approach’, whereas under AASB 114 financial results of segments were recognised and measure in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

Impairment testing of the segment’s goodwill

AASB 136: Impairment of Assets, para 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer’s CGUs, or group of CGUs that are expected to benefit from the synergies of the business combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than the operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to split as a result of changes to AASB 8.

Management have considered the requirements of AASB 2136 and determined the implementation of AASB 8 has not impacted the CGUs of each operating segment.

Disclosure impact

AAASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group’s financial statements.

Disclosure impact

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group’s financial statements now contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of ‘other comprehensive income’ which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

(aa) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
 - simplifying the requirements for embedded derivatives;
 - removing the tainting rules associated with held-to-maturity assets;
 - removing the requirements to separate and fair value embedded derivatives for financial assets carried at cost;
 - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
 - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
 - a. the objective of the entity's business model for managing the financial assets; and
 - b. the characteristics of the contractual cash flows.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards 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 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

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NOTE 1: STATEMENT OF ACCOUNTING POLICIES (continued)

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standards also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

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ECONOMIC ENTITY
2010 **2009**
\$'000 **\$'000**

NOTE 2: REVENUE

Revenue from operating activities:		
Revenue from services	73,857	73,463
Revenue from land sales	13,305	-
Revenue from product sales	18,289	11,299
Revenue from farming operations	-	145
Interest on loans (a)	2,688	1,442
Total sales revenue	108,139	86,349
Other income:		
Dividends received (b)		11
Interest received - Other persons	542	485
Profit / (Loss) on disposal of plant & equipment	(143)	(1)
Gain on agriculture produce	(51)	(21)
Gain on revaluation of plantations	8,005	8,030
Total other income	8,353	8,503
Total revenue and other income from continuing operations:		
- Attributable to members of the parent entity	116,492	94,852

NOTE 3: TRADE AND OTHER RECEIVABLES (CURRENT)

Trade Debtors	79,257	41,035
Provision for impairment of receivables	(327)	(2,850)
	78,930	38,185
Loans to growers	7,162	11,507
Bonds & deposits	45	40
Prepayments	800	282
	86,937	50,015

NOTE 4: INVENTORIES (CURRENT)

At cost:		
Land held for resale	5,838	4,495
Finished goods	5,219	6,536
Seedlings at Cost	805	213
Seed Stock	108	159
Harvested trees (FPC)	42	42
Raw materials	46	27
Provision for obsolete stock	(66)	(65)
	11,992	11,406

NOTE 5: DERIVATIVES

Forward exchange contracts - hedges	25	77
Interest rate swaps	-	13
	25	90

TFS CORPORATION LTD
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	2010	2009
	\$'000	\$'000
NOTE 6: TRADE AND OTHER RECEIVABLES (NON-CURRENT)		
Loans to growers	38,843	28,471
Less: Provision for impairment of receivables	(49)	-
	38,794	28,471
Loans to employees under share acquisition plan	5,687	4,834
Total Receivable (Non Current)	44,481	33,305
NOTE 7: OTHER FINANCIAL ASSETS (NON-CURRENT)		
Cash Deposit - First Loss Account	5,563	6,141
	5,563	6,141
NOTE 8: PROPERTY, PLANT & EQUIPMENT		
Plant & Equipment - at cost	24,401	15,515
Less: Accumulated depreciation	(6,722)	(5,428)
Total plant & equipment	17,679	10,087
Land & Buildings at directors valuation	40,266	54,636
Land & Buildings at cost	-	-
Less: Accumulated amortisation	(336)	(196)
Total property	39,930	54,440
Total property, plant & equipment	57,609	64,527
NOTE 9: BIOLOGICAL ASSETS		
At cost:		
Opening balance	2,739	1,808
Additions	2,566	931
Closing Balance	5,305	2,739
At market value:		
Opening balance	28,210	20,180
Increments / (Decrements)	8,005	8,030
Closing balance	36,215	28,210
Net book value	41,520	30,949
NOTE 10: INTANGIBLE ASSETS		
Goodwill:		
Cost	20,034	19,774
Accumulated impaired losses	-	-
Net carrying value	20,034	19,774
Supply agreements:		
Cost	478	478
Accumulated impaired losses	-	-
Net carrying value	478	478
Total intangibles	20,512	20,252

TFS CORPORATION LTD
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	2010	2009
	\$'000	\$'000
NOTE 11: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD		
Associated companies	587	392
	<u>587</u>	<u>392</u>
NOTE 12: OTHER ASSETS		
Water rights	1	1
Option over land	-	-
Accrued income receivable	31,562	20,431
	<u>31,563</u>	<u>20,431</u>
Land preparation costs	9,798	4,232
Less: Provision for Amortisation	(198)	(198)
	<u>9,600</u>	<u>4,034</u>
Total Other Assets	<u>41,163</u>	<u>24,465</u>
NOTE 13: TRADE AND OTHER PAYABLES (CURRENT)		
Unsecured:		
Trade Creditors	6,151	2,762
Goods & services tax payable	3,324	6,629
Dividends Payable	278	143
Other creditors and accrued expenses	11,092	9,764
	<u>20,845</u>	<u>19,299</u>
NOTE 14: PROVISIONS (CURRENT)		
Employee entitlements	1,015	780
	<u>1,015</u>	<u>780</u>
NOTE 15: FINANCIAL LIABILITIES (CURRENT)		
Secured:		
Bank overdraft	59	3
Hire purchase liability	647	390
Borrowing secured by mortgage	-	-
	<u>706</u>	<u>394</u>
NOTE 16: UNEARNED INCOME (CURRENT)		
Unearned income	15,272	17,239
	<u>15,272</u>	<u>17,239</u>
NOTE 17: FINANCIAL LIABILITIES (NON CURRENT)		
Secured:		
Hire purchase liability	1,414	1,843
Borrowing secured by mortgage	65,161	63,210
Loan Book Securitisation Facility	-	-
	<u>66,575</u>	<u>65,054</u>

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	2010	2009
	\$'000	\$'000
NOTE 18: UNEARNED INCOME (NON CURRENT)		
Unearned Income	2,253	14,994
	2,253	14,994

NOTE 19: ISSUED CAPITAL

Issued ordinary fully paid with no par value		
227,360,909 (30.06.09: 191,272,208)	77,688	43,014
	77,688	43,014

	2010	2009
	No.	No.
Ordinary shares		
At beginning of the period	191,272,208	187,278,488
Shares issued during the year		
- 26 August 2008 (i)	-	1,048,618
- 28 November 2008 (ii)	-	983,712
- 27 February 2009 (iii)	-	1,477,300
- 27 February 2009 (iv)	-	200,000
- 19 June 2009 (v)	-	284,090
- 10 September 2009 (vi)	28,000,000	-
- 14 October 2009 (vii)	5,280,334	-
- 22 December 2009 (viii)	1,079,677	-
- 02 February 2010 (ix)	1,141,700	-
- 18 June 2010 (x)	586,990	-
At reporting date	227,360,909	191,272,208

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

Total borrowings	67,281	65,448
Less: Cash and cash equivalents	20,161	38,715
Net debt	47,120	26,732
Total equity	195,340	135,084
Total capital	242,460	161,816
Gearing ratio	19.43%	16.52%

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	2010	2009
	\$'000	\$'000
NOTE 20: CASH FLOW INFORMATION		
(i) Reconciliation of cash		
Cash balance comprises:		
Cash at bank	20,154	38,712
Cash on hand	7	4
JV Cash at bank	-	-
Cash balance as per balance sheet	20,161	38,715
Less: Overdraft	(59)	(3)
Cash balance as per cash flow statement	20,102	38,712
	2010	2009
	\$'000	\$'000
(ii) Reconciliation of operating profit after income tax to the net cash flow provided by operating activities.		
Operating profit / (loss) after income tax	37,109	34,838
Add/(less) non-cash items:		
Depreciation and amortisation	1,742	1,369
Reclassification of land to inventory	13,678	4,495
Share of net profits from associates	(190)	(33)
Tax adjustment taken direct to equity/ARR	1,287	(207)
Net cash provided by operating activities before change in assets and liabilities	53,626	40,463
Changes in operating assets and liabilities:		
Provision for taxation increase / (decrease)	(6,091)	2,984
Provision for impairment increase / (decrease)	(2,475)	2,270
Provision for deferred taxation increase / (decrease)	4,979	5,169
Future taxation benefit (increase) / decrease	2,239	(585)
(Profit) / loss on sale of fixed assets	143	1
(Profit) / loss on sale of investments	(26)	(37)
(Increase) / decrease in trade debtors	(38,227)	(2,181)
(Increase) / decrease in prepayments	(517)	(67)
(Increase) / decrease in accrued income receivable	(11,131)	(8,494)
(Increase) / decrease in grower loans	(6,027)	(28,997)
(Increase) / decrease in inventories	(585)	(7,113)
(Increase) / decrease in sandalwood tree market value	(8,005)	(8,030)
(Increase) / decrease in foreign exchange / swap contracts	66	435
Increase / (decrease) in trade creditors and provisions	1,647	5,463
Increase / (decrease) in unearned income	(14,708)	14,927
Net cash flow from operating activities	(25,092)	16,208

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	Consolidated 12 months to 30 June 2010	Consolidated 12 months to 30 June 2009
	\$'000	\$'000
NOTE 21: EARNINGS PER SHARE		
Earnings used in calculating basic and diluted earnings per share	41,378	34,838
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	218,540	189,314
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	219,540	190,314
Earnings used in calculating cash diluted earnings per share		
Net Profit/(Loss) After Tax (Cash)	23,749	23,286
Comprehensive Income Net of Tax (Cash)	2,971	-
	26,720	23,286
	2010	2009
	\$'000	\$'000
NOTE 22: DIVIDENDS		
<i>Distributions paid</i>		
Final fully franked dividend of 3.0 cents per share.	-	5,650
Interim fully franked dividend of 1.25 cents per share	-	2,387
Final fully franked dividend of 3.0 cents per share.	6,737	-
Interim fully franked dividend of 1.25 cents per share	2,835	-
	9,572	8,037
(a) Proposed final fully franked ordinary dividend of 3.5 cents per share (2009: 3.0 cents) franked at the tax rate of 30% (2009: 30%)	7,958	6,578
(b) balance of franking account at year end adjusted for franking credits arising from the payment of the provision for income tax	23,444	22,419
- Subsequent to year end the franking account would be reduced by the proposed dividend reflected per (a) as follows	(3,410)	(2,819)
	20,034	19,600
NOTE 23 ACQUISITION OF SUBSIDIARIES		
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	260	11,000
Cash consideration	260	9,900
Equity issued as consideration	-	1,100
Total Purchase	260	11,000
Fair value of assets acquired (see below)	-	4,915
Goodwill	260	6,085
Investment in subsidiary	260	11,000

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	2010	2009
	\$'000	\$'000
NOTE 23 ACQUISITION OF SUBSIDIARIES (Continued)		
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	-	(2,151)
Borrowings	-	(18,934)
Net assets acquired	-	4,915
Purchase consideration settled in cash	260	9,900
Cash and cash equivalents in subsidiary acquired	-	(1,620)
Cash outflow on acquisition	260	8,280

NOTE 24: INFORMATION ON AUDIT

The financial statements are in the process of being audited.

NOTE 25: OPERATING SEGMENTS

Segment information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

Types of products and services by segment

(i) *Plantation Management*

The plantation management segment is firstly responsible for the promotion and sales of Indian Sandalwood lots to investors, also called growers.

Secondly this segment is responsible for the establishment, maintenance and harvesting of Indian Sandalwood plantation on behalf of the growers and the group owned plantations.

Thirdly this segment is responsible for end market research and the establishment of end market agreements.

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NOTE 25: OPERATING SEGMENTS (Continued)

Significant plant & equipment, including tractors, motor vehicle and irrigation infrastructure form the basis for the operating assets in this segment.

(ii) Finance

The segment is responsible for providing finance to growers to purchase Sandalwood lots. This finance can either be via in house or by arranging external finance.

(iii) Sandalwood Products

This segment, which includes the 100% owned subsidiary Mt Romance Holdings Pty Ltd is responsible for the manufacture of Sandalwood Oil and products for resale both domestic and internationally.

(iv) Farming

This segment is responsible for all the farming activities of the group, other than forestry related activities.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is reviewed on an ongoing basis and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated to the plantation management division, unless it can be assigned to a specific segment other than plantation management. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received. This inter-segment loans are revolving facility with no fixed terms, interests free and repayable in full when the borrower is in a financial position to effect this.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have been allocated to an operating segment.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities relating to the Group as a whole are allocated to the plantation management segment unless it can be assigned to a specific segment other than plantation management. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

Currently the group has no unallocated items.

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NOTE 25: OPERATING SEGMENTS (Continued)

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

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NOTE 25: SEGMENT INFORMATION (Continued)

The consolidated entity's operations involve the management and operation of forestry plantations, cultivation and sale of agriculture produce, the provision of finance, and the production and sale of Sandalwood Oil and related products. All operations are conducted in Australia.

Primary Reporting in Business Segments.

Industry Segments	Plantation Management		Finance		Sandalwood products		Farming		Consolidation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<i>Operating revenue (Cash*)</i>										
Establishment fees (New sales)	55,481	60,247	-	-	-	-	-	-	55,481	60,247
Land sales	13,305	-	-	-	-	-	-	-	13,305	-
Lease & management fees	6,093	3,613	-	-	-	-	-	-	6,093	3,613
Product sales	-	-	-	-	18,289	11,299	-	-	18,289	11,299
Sales of agriculture produce	-	-	-	-	-	-	-	145	-	145
Interest	543	485	2,688	1,442	-	-	-	-	3,231	1,927
Other	1,008	1,119	-	-	-	-	-	-	1,008	1,119
	<u>76,430</u>	<u>65,464</u>	<u>2,688</u>	<u>1,442</u>	<u>18,289</u>	<u>11,299</u>	<u>-</u>	<u>145</u>	<u>97,407</u>	<u>78,350</u>
<i>Operating revenue (Non-Cash*)</i>										
Accrued income recognition	11,131	8,494	-	-	-	-	-	-	11,131	8,494
Gain on revaluation of plantation	8,005	8,029	-	-	-	-	-	-	8,005	8,029
Gain on agriculture produce - Seeds	(51)	(21)	-	-	-	-	-	-	(51)	(21)
	<u>19,085</u>	<u>16,502</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,085</u>	<u>16,502</u>
Inter segment revenue	2,198	736							2,198	736
Total segment revenue	<u>97,713</u>	<u>82,702</u>	<u>2,688</u>	<u>1,442</u>	<u>18,289</u>	<u>11,299</u>	<u>-</u>	<u>145</u>	<u>118,690</u>	<u>95,588</u>
<i>Reconciliation of segment revenue to group revenue</i>										
Inter segment revenue									(2,198)	(736)
Unallocated revenue									-	-
Total group revenue from ordinary activities									<u>116,492</u>	<u>94,852</u>
Result										
Earnings before interest, tax, dep'n and amort'n (EBITDA) - Cash*	33,301	31,703	2,805	1,899	5,371	3,362	-	27	41,476	36,990
(EBITDA) - Non-Cash*	20,940	16,503							20,940	16,503
Inter segment earnings - Contributing to EBITDA	2,198	736							2,198	736
(EBITDA) - Total	<u>56,438</u>	<u>48,941</u>	<u>2,805</u>	<u>1,899</u>	<u>5,371</u>	<u>3,362</u>	<u>-</u>	<u>27</u>	<u>64,614</u>	<u>54,229</u>

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NOTE 25: SEGMENT INFORMATION (Continue)

Segment result before income tax	47,997	46,423	262	1,137	4,469	2,132	-	27	52,728	49,719
<i>Reconciliation of segment result to group net profit before tax.</i>										
Inter segment revenue									(2,198)	(736)
Amounts not included in segment results but reviewed by board.									-	-
Unallocated expenses									-	-
Share of net profits of associates	77	33	-	-	113	-	-	-	190	33
Net profit before tax from continued operations									50,720	49,016
Segment Assets										
Segment Assets	295,842	251,374	53,487	46,225	35,014	31,314	-	-	384,343	328,913
Segment increases for the period:										
Capital expenditure	7,044	-	-	-	-	-	-	-	7,044	-
Acquisitions	3,846	3,852	-	-	821	2,097	-	-	4,667	5,949
	10,890	3,852	-	-	821	2,097	-	-	11,711	5,949
<i>Reconciliation of segment assets to group assets</i>										
Inter-segment eliminations									(50,449)	(43,071)
Unallocated assets									-	-
Total group assets from continuing operations									333,894	285,842
Segment Liabilities										
Segment Liabilities	109,855	120,758	47,373	40,388	22,519	23,428	-	-	179,747	184,574
<i>Reconciliation of segment liabilities to group liabilities</i>										
Inter-segment eliminations									(41,194)	(33,816)
Unallocated liabilities									-	-
Total group liabilities from continuing operations									138,553	150,758
Major Customers										
The Group has a number of customers to whom it provides both products and services. The Group supplies a single external customer in the plantation management segment who accounts for 19.39% of external revenue. The next most significant client accounts for 15.56% of external revenue.										