

# EAST KIMBERLEY SANDALWOOD PROJECT NO.1

ANNUAL REPORT  
FOR THE PERIOD TO 30 JUNE 2008

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## RESPONSIBLE ENTITY'S REPORT

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The Directors of TFS Properties Ltd (ACN 093 330 977), Responsible Entity of East Kimberley Sandalwood Project No.1 ("the Project"), present their report together with the financial statements of the Project for the year ended 30 June 2008.

### Directors

The names of the Directors of TFS Properties Ltd during the period and at the date of this report are:

Frank Cullity WILSON  
Ronald Lionel EACOTT  
Blake William MYLES  
Ian MacKenzie MURCHISON  
Ian Ross THOMPSON  
Tim CROOT

### Principal Activities

During the period the principal activity of the Project was the management of a sandalwood plantation.

### Change of State of Affairs

There was no significant change in the state of affairs of the Project.

### Results of Operations and Likely Developments

The Project made a profit for the period ended 30 June 2008 of \$861,987 (2007: \$3,037,954).

This is due to the increment in the valuation of the sandalwood trees.

The EKS Plantation was originally established in 1999 and the trees are now 9 years old.

Due to the decline in the supply of Indian Sandalwood in India, only small quantities of heartwood have been sold at recent auctions. Consistent price growth has been the result of the growing imbalance between the supply and demand that characterises the Indian Sandalwood market.

The price of Indian Sandalwood has continued to increase at a compounded rate of 21% over the last 16 years. At the latest auction held by the Tamil Nadu Forestry Department, 108 tonnes of heartwood was sold for an average price of \$107,985 per tonne (December 2007).

### Expert Forester's Report

The following is an extract from a report prepared by our expert forester, Mr Peter Kimber:

EKS Project No. 1 is situated on King Location 254 and is divided into three compartments for management purposes. These are designated 83B, 83C and 85B respectively.

Due to heavy mortality among the sandalwood seedlings after planting it was necessary to in-fill the gaps with new seedlings in the 2000 planting season. This was not particularly successful and stocking levels of sandalwood now remain lower than desirable in all three compartments.

The long-term hosts planted in this project were *Cassia siamea*, African mahogany and a local leguminous tree with no common name (*Cathormion*). Due to the dense overhead canopy formed by the mahogany trees the *Cathormion* was shaded out and most trees of this species have died. The mahogany, because of its vigorous growth and its spreading and dense crowns also began to overtop the sandalwood and stunt its growth and some years ago, in order to protect many of the sandalwood trees it was decided to kill the offending mahogonies by ring-barking. This has continued to the present and has been remarkably successful in saving many sandalwood that would otherwise have stagnated or died.

The EKS 1 plantation was established on land that had previously carried a crop of the tropical legume tree *Leucena* which had been planted for feeding cattle. This tree is a prolific producer of seed which on falling to the ground can lie dormant for many years.

## RESPONSIBLE ENTITY'S REPORT (CONTINUED)

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Compartments 83B and 83C had apparently developed a huge seed-bank in the ground which has since germinated and created an enormous problem in its control. To the credit of the managers of this plantation, the *Leucena* has been brought almost completely under control over the past year. Unfortunately, a lot of damage had already been by the suppression of sandalwood development in approximately two-thirds of the area of compartment 83B.

Standard operations carried out during the year included irrigation, weed control, the maintenance of water-supply channels, drains for the removal of irrigation water and access tracks.

As sandalwood plantations increase in age the frequency of irrigation decreases to a 6 to 7 week cycle at age 5, and this is how often EKS No1 is now watered throughout the dry season. At each irrigation water is flooded from the water supply channel via valves and guided into furrows running alongside the rows of trees. Water is allowed to run through the furrows for approximately 24 hours after which the excess water is drained away.

Weed control in a 9 year old plantation is relatively minor and has involved one or two passes of a slasher between the tree rows as soon as the soil had dried out after the wet season. Within the tree rows the weeds (including *Leucena* seedlings) are controlled by applications of herbicides from side-spray nozzles. Maintenance of the irrigation furrows and drains consisted of the removal of silt and spraying to keep weeds under control, while access tracks have been maintained by grading and spraying the verges for weed control.

The health of the EKS plantation is good and it has been maintained free of insect pests and fungal diseases. Growth of the sandalwood continued to be very variable with some trees rather small for their age. I suspect these are some that were part of the year 2000 in-filling operation. Others are exceptionally developed for their age with heights exceeding 12 metres and basal diameters exceeding 20 cm.

In addition to the above plantations, the responsible entity also planted an extra 25 hectares in 2001 that are held on trust for the EKS investors. The EKS investors will be entitled to all or part of those extra plantings in the event that poor early survivals from the original plantations result in investors not meeting prospectus.

### Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 21 of the financial report.

For and on behalf of the Directors of TFS Properties Ltd:



Frank Cullity Wilson

Perth, 14<sup>th</sup> January, 2009

## Independent Audit Report

### To the Members of East Kimberley Sandalwood Project No.1

We have audited the accompanying financial report of East Kimberley Sandalwood Project No.1, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration at the year's end.

#### Directors Responsibility for the Financial Report

The directors of the responsible entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standards AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

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

#### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

# **Independent Auditor's Report**

To the Members of East Kimberley Sandalwood Project No.1

## **Auditor's Opinion**

In our opinion:

- a. The financial report of East Kimberley Sandalwood Project No.1 is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the registered scheme's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1



**BENTLEYS**  
Chartered accountants



**RANKO MATIĆ**  
Director

DATED at PERTH this 14<sup>th</sup> day of January 2009

EAST KIMBERLEY SANDALWOOD PROJECT NO.1  
 INCOME STATEMENT  
 FOR THE YEAR TO 30 JUNE 2008

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	NOTE	2008 \$	2007 \$
<b>REVENUE</b>			
Establishment fees		-	-
Lease & management fees		339,383	381,784
Interest received		-	(46)
Other income:			
Net increment in net value of biological assets		861,987	3,037,954
		<u>1,201,370</u>	<u>3,419,692</u>
<b>EXPENSES</b>			
Audit fees		4,050	3,675
Bad debt / provision (recovery) for impairment of receivables		(29,727)	(1,399)
Compliance committee remuneration		4,200	4,270
Filing fees		417	1,745
Contractor Services		339,383	381,784
Reimbursement of expenses by Manager		21,060	(8,337)
		<u>339,383</u>	<u>381,738</u>
<b>NET PROFIT</b>		<u>861,987</u>	<u>3,037,954</u>

The Income Statement should be read in conjunction with the accompanying notes.

EAST KIMBERLEY SANDALWOOD PROJECT NO.1  
BALANCE SHEET  
AT 30 JUNE 2008

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	NOTE	2008 \$	2007 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2	-	-
Trade and other receivables	3	11,954	6,628
Other	4	171,422	186,302
<b>TOTAL CURRENT ASSETS</b>		<u>183,376</u>	<u>192,930</u>
<b>NON CURRENT ASSETS</b>			
Biological assets	5	12,745,443	11,883,456
Other	4	685,687	931,510
<b>TOTAL NON-CURRENT ASSETS</b>		<u>13,431,130</u>	<u>12,814,966</u>
<b>TOTAL ASSETS</b>		<u>13,614,506</u>	<u>13,007,896</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	6	11,954	6,628
Unearned Income	7	171,422	186,302
<b>TOTAL CURRENT LIABILITIES</b>		<u>183,376</u>	<u>192,930</u>
<b>NON CURRENT LIABILITIES</b>			
Unearned Income	7	685,687	931,510
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>685,687</u>	<u>931,510</u>
<b>TOTAL LIABILITIES</b>		<u>869,063</u>	<u>1,124,440</u>
<b>NET ASSETS</b>		<u>12,745,443</u>	<u>11,883,456</u>
<b>GROWERS' FUNDS</b>			
Undistributed income reserve		12,745,443	11,883,456
<b>EQUITY</b>		<u>12,745,443</u>	<u>11,883,456</u>

The Balance Sheet should be read in conjunction with the accompanying notes.

EAST KIMBERLEY SANDALWOOD PROJECT NO.1  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR TO 30 JUNE 2008

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	NOTE	Trustee's Reserve \$	Undistributed Income \$	Total \$
<b>Balance at 1.7.2006</b>		10,000	8,845,502	8,855,502
Additions / Reductions to fund		( 10,000)	-	( 10,000)
Profit for period		-	3,037,954	3,037,954
Sub-Total		-	11,883,456	11,883,456
Distributions provided for or paid			-	-
<b>Balance at 30.6.2007</b>		-	11,883,456	11,883,456
<b>Balance at 1.7.2007</b>		-	11,883,456	11,883,456
Profit for period		-	861,987	861,987
Sub-Total		-	12,745,443	12,745,443
Distributions provided for or paid			-	-
<b>Balance at 30.6.2008</b>		-	12,745,443	12,745,443

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

EAST KIMBERLEY SANDALWOOD PROJECT NO.1  
 CASH FLOW STATEMENT  
 FOR THE YEAR TO 30 JUNE 2008

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	NOTE	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<u>Inflows</u>			
Receipts from growers		107,292	237,805
Interest received		-	(46)
<u>(Outflows)</u>			
Payments to suppliers		(107,292)	(238,142)
		<u>0</u>	<u>(383)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>			
Payment for establishment of plantations		-	-
		<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>			
Settlement of trustees reserve fund		-	(10,000)
		<u>-</u>	<u>(10,000)</u>
Net increase / (decrease) in cash held		0	(10,383)
Cash at beginning of the year		-	10,383
Cash at end of the year	8(a)	<u>-</u>	<u>-</u>

The cash Flow Statement should be read in conjunction with the accompanying notes.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2008

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the East Kimberley Sandalwood Project No.1. East Kimberley Sandalwood Project No.1 is a Managed Investment Scheme registered in Australia.

### Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards; including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, except for Sandalwood trees (which are biological assets), which are recorded at net market value. 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) Revenue Recognition

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

Operating revenue:

- Timber Lot sales (Establishment Fees) are recognised as revenue on acceptance of the application by the responsible entity. The directors of the responsible entity are of the view that this recognition policy most appropriately reflects the timing in which the probability of the economic benefits flows to the entity based on commitments made by investors and costs expended to date.
- Lease and Management Fees are recognised as revenue in the period to which they relate.

#### (b) Biological assets

Sandalwood trees are measured at the Responsible Entity's Director's assessment of their market value at each reporting date. The net market value is determined as being the net present value of 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 Income Statement, determined as:

- (i) 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; less
- (ii) costs incurred during the reporting period to acquire and plant Sandalwood trees.

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.

#### (c) Income Tax

Under current legislation, the scheme is not subject to income tax provided the Growers are presently entitled to the income of the Project.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR 30 JUNE 2008 (CONTINUED)

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Unrealised gains and losses on investments which are regarded as income, are transferred to Growers' funds and are not distributable and assessable until realised. When income is realised, tax will be paid by the growers at the marginal rates of tax that exist under the relevant tax legislation at the date of realisation.

### **(d) Cash and Cash Equivalents**

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and in banks, and short-term deposits at call.

### **(e) 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 of 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.

### **(f) Trade and other Payables**

Liabilities for 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 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.

### **(g) Unearned Income**

Prepaid Lease and Management Fees are recognised on a straight line basis over the term of the project as this is considered to closely approximate the value of the service provided. The unearned portion is deferred and recorded as unearned income.

### **(h) Goods and Services Tax**

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 Balance Sheet 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.

### **(i) Impairment of Assets**

At each reporting date, the economic entity 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.

### **(j) Financial Instruments Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR 30 JUNE 2008 (CONTINUED)

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### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Financial instruments are initially measured as cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

### Classification and Subsequent Measurement

#### *Financial assets at fair value through profit and loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

#### *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 using the effective interest rate method.

#### *Held-to-maturity investments*

These investments have fixed maturities, and it is the company's intention to hold these investments to maturity. Any held-to-maturity investments held by the company are stated at amortised cost using the effective interest rate method.

#### *Available-for-sale financial assets*

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

#### *Financial Liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

### 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 company 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.

### (k) Comparative Figures

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR 30 JUNE 2008 (CONTINUED)

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### Critical Accounting Estimates and Judgements

The directors of the Responsible Entity 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 – Biological Asset valuation*

As referred to in Note 1(b) and Note 5, as required under the accounting standards the directors of the responsible entity make an estimate as to the market value of the standing sandalwood trees held by the scheme. The carrying value of the sandalwood trees at year end is shown in Note 5. 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 scheme uses the more conservative estimates.

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

The entity assesses the likelihood of any impairment of the entity's receivables 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 entity 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 is shown in Note 3.

The financial report was authorised for issue on 14 January 2009 by the board of directors of the responsible entity.

















