

TFS PREMIUM SANDALWOOD PROJECT 2004

**ANNUAL FINANCIAL REPORT
FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004**

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RESPONSIBLE ENTITY'S REPORT

The Directors of TFS Properties Ltd (ACN 093 330 977), Responsible Entity for TFS Premium Sandalwood Project 2004, present their report together with the financial statements of the TFS Premium Sandalwood Project 2004 ("the Project") for the period ended 30 June 2004.

Directors

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

Frank Cullity WILSON
Graeme Eric SCOTT
Stephen Lee ATKINSON
Ronald Lionel EACOTT
Blaine David KIDD
Julius Luke MATTHYS
Thomas Nash CULLITY

Principal Activities

During the period the principal activity of the Project was the establishment and 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 financial year ended 30 June 2004 of \$2,108,082.

This is due to the receipt of fees for the establishment of 450 lots.

This plantation was planted in June 2004 on Block 6 of King Location 385 and Block 2 of King Location 386 at Packsaddle Plain.

The price of Sandalwood continues to rise at the Indian auctions in Tamil Nadu and at the latest auction in September 2004, on a relatively thin trade, the price had risen to \$US45,000 per tonne on average.

This compares with an average price per tonne of \$US35,000 at the same auctions in January 2003.

An extract from a report on the plantation by our independent expert forester, Mr Peter Kimber follows:

Present State of the Plantation

Further planting to fill gaps created by dead seedlings is planned for late August this year. Seedling deaths which are not extensive were caused by an infestation of cut worms that ring bark the seedlings at ground level. They were controlled by two aerial sprays of the insecticide "Dipterex". The cut worm invasion was wide-spread throughout the farming area and was regarded as an unusual occurrence.

RESPONSIBLE ENTITY'S REPORT (CONTINUED)

Maintenance Works Carried Out in June 2004

Block 6, was assessed as deficient in nutrients from an analysis of soil samples taken from the block and the variable crop yields achieved by lessee farmers who cropped the block in the previous year. Three hundred kilograms per hectare of the fertiliser DAP (Diammonium Phosphate) were drilled into the planting beds of the area showing the worst deficiency symptoms and 100 kilograms per hectare of DAP were drilled into the rest of the area. This was carried out shortly before planting the tree seedlings.

Planting commenced in early June and was completed in the last week of that month. The standard of planting was above average due to the excellent training of the planters by the Plantation Supervisor and also due to his close supervision of the operation from beginning to end.

Conclusion

This Plantation is still in its very early stages having been planted in the last month or so. It is too early to predict the long-term viability of the trees but overall at this stage the plantation looks healthy with both Sandalwood seedlings and host seedlings doing well.

Balance of Interests

As at 30 June 2004, the balance of lease interests held by Growers is 450.

Interests Held by Responsible Entity and Related Parties

At 30 June 2004, no lease interests are held by the Responsible Entity and 120 lease interests are held by Related Parties.

Environmental Regulations

The Project is not subject to any significant environmental regulations under any State, Commonwealth or Territory Law.

Insurance of Officers of the Company or Auditors

Neither the Project nor TFS Properties Ltd has, during or since the end of the period, in respect of any person who is or has been an officer of TFS Properties Ltd or a related body corporate or auditor of the Project:

- indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

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



Graeme Eric Scott

Perth, 6th December 2004



Rix Levy Fowler

CHARTERED BUSINESS ADVISORS

Partners:
Phillip Rix FCA
Ranko Matic CA
George Lazarou CA
Jon Carcich CA

Services:
Accounting
Audit & Assurance
Business Financing
Business Reviews
Corporate Secretarial
Financial Planning
IT Solutions
Superannuation
Taxation Planning

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TFS PREMIUM SANDALWOOD PROJECT 2004

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, accompanying notes to the financial statements, and the directors' declaration for TFS Premium Sandalwood Project 2004 (the project), for the financial year ended 30 June 2004.

The directors of the responsible entity are responsible for the preparation and true and fair presentation of the project's financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the project. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the project's financial position, and performance as represented by the results of its operations and its cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors of the responsible entity.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Independence

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

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Audit Opinion

In our opinion, the financial report of TFS Premium Sandalwood Project 2004 is in accordance with:

- (a) The Corporations Act 2001, including:
 - (i) giving a true and fair view of the project's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



RIX LEVY FOWLER
Chartered Business Advisors



PHILLIP RIX
Partner

DATED at PERTH this 6th day of December 2004

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004**

| | Notes | 2004 \$ |
|--|--------------|-------------------------|
| REVENUE FROM ORDINARY ACTIVITIES | | |
| Establishment Fees | | <u>2,108,082</u> |
| | | <u>2,108,082</u> |
| EXPENSES FROM ORDINARY ACTIVITIES | | |
| Filing fees | | 2,010 |
| Reimbursement of expenses by Responsible Entity | | <u>(2,010)</u> |
| | | <u>-</u> |
| NET OPERATING INCOME FROM ORDINARY ACTIVITIES | | <u>2,108,082</u> |

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2004

| | Notes | 2004 \$ |
|----------------------------------|-------|-------------------------|
| CURRENT ASSETS | | |
| Cash | 2 | - |
| Receivables | 3 | <u>1,241,718</u> |
| TOTAL CURRENT ASSETS | | <u>1,241,718</u> |
| NON CURRENT ASSETS | | |
| Sandalwood trees | 4 | <u>2,108,082</u> |
| TOTAL NON CURRENT ASSETS | | <u>2,108,082</u> |
| TOTAL ASSETS | | 3,349,800 |
| CURRENT LIABILITIES | | |
| Payables | 5 | <u>1,241,718</u> |
| TOTAL CURRENT LIABILITIES | | <u>1,241,718</u> |
| TOTAL LIABILITIES | | <u>1,241,718</u> |
| NET ASSETS | | <u>2,108,082</u> |
| GROWERS' FUNDS | | |
| Undistributed income reserve | 6 | <u>2,108,082</u> |
| EQUITY | | <u>2,108,082</u> |

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004

| | Notes | 2004 \$ |
|--|-------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| <u>Inflows</u> | | |
| Receipts from Growers | | <u>1,077,172</u> |
| | | <u>1,077,172</u> |
| <u>(Outflows)</u> | | |
| Payments to suppliers | | <u>-</u> |
| | | <u>-</u> |
| NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES | 8 | <u><u>1,077,172</u></u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| <u>(Outflows)</u> | | |
| Payment for establishment of plantations | | <u>(1,077,172)</u> |
| | | <u>(1,077,172)</u> |
| NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES | | <u><u>(1,077,172)</u></u> |
| NET INCREASE/(DECREASE) IN CASH HELD | | - |
| Add opening cash brought forward | | <u>-</u> |
| CLOSING CASH CARRIED FORWARD | | <u><u>-</u></u> |

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial report is a general purpose financial report which has been prepared in accordance with the Project's constitution and the requirements of the Corporations Act 2001, which includes applicable accounting standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention, except for Sandalwood trees (which are self-generating assets), which are recorded at net market value.

(b) 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. Specific revenues are recognised as follows.

Operations revenue:

- Sandalwood Lot sales (Establishment Fees) are recognised as revenue on acceptance of the application by the Responsible Entity.
- Lease and Management Fees are recognised as revenue in the period to which they relate.

(c) Sandalwood Trees

Sandalwood trees are measured at 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 Statement of Financial Performance, 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004 (CONTINUED)

(d) 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.

Unrealised gains and losses on investments which are regarded as income, are transferred to Growers' funds and are not distributable and assessable until realised.

(e) Cash and Equivalents

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

(f) Receivables

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.

(g) 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. Payables to related parties are carried at the principal amount.

(h) 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.

(i) 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 Statement of Financial Position are shown inclusive of GST.

(j) Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The economic entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. Stakeholders will be kept informed as to the impact of these new standards on the financial statements as they are finalised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004 (CONTINUED)

| | 2004 \$ |
|--|------------------|
| 2. CASH | |
| Cash at bank | <u>-</u> |
| 3. RECEIVABLES | |
| Outstanding fees (i) | <u>1,241,718</u> |
| (i) Outstanding Establishment Fees represent moneies receivable from Growers in accordance with the Lease and Management Agreement. No interest has been charged on amounts due. | |

4. SANDALWOOD TREES

at cost of establishment 2,108,082

(b) Nature of Asset

Investors in the TFS Premium Sandalwood Project 2004 who are referred to as "Growers" subscribed for Sandalwood Lots of size one hectare each upon which Sandalwood trees have been established.

The Sandalwood plantation is situated at King Location 384, 385 and 386 approximately 8 kilometres from the Western Australian township of Kununurra.

The land upon which the Sandalwood plantation is located is either owned or leased by the Responsible Entity. Growers lease the land from the Responsible Entity for the duration of the Project. The Project will continue in operation until the date on which the last of the Growers has been advised that the produce of the Sandalwood crop from each leased area which is leased by the Grower has been harvested and that the relevant Lease and Management Agreement has been terminated but in any event, not later than 30 June 2018.

The net market value of the Sandalwood trees has been determined in accordance with a Directors' valuation.

(c) Significant Assumptions

Significant assumptions made in determining the net market value of the trees are:

- 15% of the trees will be harvested and sold in 2016/2017;
- 30% of the trees will be harvested and sold in 2017/2018;
- 55% of the trees will be harvested and sold in 2018/2019;
- the price of Sandalwood is constant in real terms;
- the costs expected to arise on harvest are constant in relative terms; and
- the pre-tax average real rate at which the net cash flows have been discounted is at 17% per annum.

Cash flows exclude income taxes and are expressed in real terms.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004 (CONTINUED)

2004
\$

5. PAYABLES

Accounts Payable

| | |
|---|------------------|
| Trust funds payable to Responsible Entity (i) | 1,030,910 |
| Australian Taxation Office (ii) | <u>210,808</u> |
| | <u>1,241,718</u> |

- (i) Trust funds payable to Responsible Entity represent the sum of monies payable by Growers to the Responsible Entity under the Lease and Management Agreement yet to be paid across to the Responsible Entity. No interest is payable on outstanding amounts.
- (ii) Amount payable to Australian Taxation Office represents GST collected net of GST paid.

6. GROWERS' FUNDS

Undistributed Income

Nature and purpose of reserve

The undistributed income reserve contains realised and unrealised income and expenses that are not yet assessable/deductible.

| | |
|----------------------|------------------|
| Opening balance | - |
| Net operating income | <u>2,108,082</u> |
| Closing balance | <u>2,108,082</u> |

7. DISTRIBUTIONS PAID AND PAYABLE

No distributions were payable or paid during the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004 (CONTINUED)

2004
\$

8. STATEMENT OF CASH FLOWS

(a) Reconciliation of Net Operating Income to the Net Cash Flows from Operating Activities

| | |
|--|-------------------------|
| Net operating income | 2,108,082 |
| <u>Additions:</u> | |
| Increase in GST received on operating income, not yet remitted | <u>210,808</u> |
| | <u>210,808</u> |
| <u>(Deductions):</u> | |
| Increase in net receivables | <u>(1,241,718)</u> |
| | <u>(1,241,718)</u> |
| Net Cash Inflow/(Outflow) from Operating Activities | <u>1,077,172</u> |

(b) Reconciliation of Cash

Cash balance comprises:

| | |
|--------------|----------|
| Cash at bank | <u>-</u> |
|--------------|----------|

9. RELATED PARTY DISCLOSURES

(a) Responsible Entity

The Responsible Entity of the TFS Premium Sandalwood Project 2004 is TFS Properties Ltd, whose immediate and ultimate holding company is TFS Corporation Limited.

(b) Directors of the Responsible Entity

The Directors of the Responsible Entity during the period were:

Frank Cullity WILSON
Graeme Eric SCOTT
Stephen Lee ATKINSON
Ronald Lionel EACOTT
Blaine David KIDD
Julius Luke MATTHYS
Thomas Nash CULLITY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004 (CONTINUED)

(c) Fees Paid or Payable to the Responsible Entity

The Responsible Entity receives all Establishment, Lease and Management Fees which have been paid by the Project during the period.

The Responsible Entity provides Sandalwood plantation establishment and management services for TFS Premium Sandalwood Project 2004 and carries out the custodial and administrative functions.

Transactions between TFS Premium Sandalwood Project 2004, and TFS Properties Ltd result from normal dealings with that company as the Projects Responsible Entity and holder of a dealer's license.

(d) Holdings of Directors and Director-related Entities

A total of 120 lease interests are held by Directors or parties related to Directors on the same terms and conditions as other Growers. An amount of \$261,250 is outstanding at year-end.

10. COMPLIANCE MATTERS

(a) Compliance Committee

The Compliance Committee during the period consisted of:

Graeme Scott (Chairman) – Director of TFS Properties Ltd
Robert Marusco – Nissen Kestel & Harford
John O'Brien – Hayes Knight GTO

The Compliance Officer during the period was Roger Pratt of Hayes Knight GTO.

(b) Remuneration of Compliance Committee

No remuneration was paid to the external members of the Compliance Committee by the Responsible Entity for provision of their services during the period ended 30 June 2004.

11. AUDIT

Auditors

Rix Levy Fowler are the auditors of the Project and the Project's Compliance Plan.

12. SEGMENT INFORMATION

The Project operates in one industry segment, being investment activities and in one geographical segment, being Australia.

13. SUBSEQUENT EVENTS

Since 30 June 2004, there has not been any matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Project.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD 28 APRIL 2004 TO 30 JUNE 2004 (CONTINUED)

14. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

Interest rate risk is the risk that a financial investment's value will fluctuate as a result of changes in market interest rates. The Project's exposure to interest rate risk is as follows:

| <u>Financial Assets</u> | 2004 |
|--|-------------|
| | \$ |
| Cash | - |
| Weighted average debit interest rate (p.a.) | 0% |
| Weighted average credit interest rate (p.a.) | 0% |
| Interest rate type | Variable |

The Project had no other financial assets or financial liabilities with exposure to interest rate risk as at balance date.

(b) Credit Risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract.

The Project's only credit risk exposure relates to debtors who comprise the receivable balance at 30 June 2004. A provision for doubtful accounts is recognised when collection of the full nominal amount is uncertain.

(c) Net Fair Value

The Project's financial assets and liabilities included in the Statement of Financial Position are carried at their net fair value. Refer to Note 1 for the methods and assumptions adopted in determining net fair values for Sandalwood trees.

DIRECTORS' DECLARATION FOR PERIOD 28 APRIL 2004 TO 30 JUNE 2004

In accordance with a resolution of the Directors of TFS Properties Ltd, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the registered project are 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 2004 and its performance, as represented by the results of its operations and its cash flows for the period ended on that date; and
 - (ii) complying the Accounting Standards and the Corporations Regulations; and
- (b) there are reasonable grounds to believe that the registered scheme will be able to pay its debts as and when they become due and payable.

On behalf of the Board
TFS Properties Ltd



GRAEME ERIC SCOTT
DIRECTOR

Dated: this 6th day of December 2004