

# **TFS SANDALWOOD PROJECT 2000**

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**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2004**

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## RESPONSIBLE ENTITY'S REPORT

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The Directors of TFS Properties Ltd (ACN 093 330 977), Responsible Entity for the TFS Sandalwood Project 2000 ("TFS 2000"), present their report together with the financial statements of the TFS Sandalwood Project 2000 ("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 \$1,000,744.

This is due to a revaluation of the plantation.

This plantation was established in 2001 and is now 3 years of age.

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.

The following is an extract from the Company's expert forester's report:

### Present State of the Plantation

TFS 2000 is a "show case" plantation where high survival and vigorous growth rates have been achieved. It is planned to commence regular annual measurements of the Sandalwood trees in this plantation this dry season. This will provide an objective indicator of their development. The short-term Sesbania hosts have died out over approximately two-thirds of the plantation area, where the other short-term host Acacia trachycarpa, together with the Cathormium trees have taken over the hosting function. Sesbania in the other third remains alive and healthy and is still supplying sustenance to the Sandalwood.

## RESPONSIBLE ENTITY'S REPORT (CONTINUED)

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The Cathormium long-term hosts suffered a heavy infestation of white fly and scale insects which proved hard to control. Ultimately total control was achieved using a systemic insecticide that also should show some residual effect. The trees are now recovering well, developing quite thick crowns and they can be expected to commence growing vigorously over the hot season ahead.

### **Maintenance Works Done Over the Past Year**

The plantation was irrigated on three occasions in July, September and November 2003 and between November 2003 and June 2004 the plantation received enough water from natural rainfall.

A total of 10 access tubes, each 2 metres deep, were sunk into the soil in this plantation to allow the measurement of soil moisture using a "Diviner 2000" moisture probe. Readings are to be taken on a regular basis throughout the latter part of the 2004 dry season in order to relate the growth rate of the trees (measured with highly accurate band dendrometers) to the level of soil moisture depletion since the last irrigation event. The data collected from this exercise will provide guidelines as to the optimal time to irrigate the plantation.

Irrigation furrows were maintained twice during the year using a "go-devil" – a set of opposed plough discs which cultivates to create a mound of soil with a furrow on either side, through which irrigation water can travel.

Tractor access rows were mechanically slashed three times to break down woody debris from dead short-term hosts, and to control woody weeds.

Creepers were pulled from trees where they posed some threat of smothering on an ongoing basis.

Regular maintenance operations were carried out to keep the water supply channels, drains and access roads in serviceable condition.

The plantation was given an aerial application of the fungicide "Agriphos 600" as a prophylactic measure to prevent infection by the root rotting fungus *Phytophthora*.

The Cathormium long-term hosts were given an application of the systemic insecticide "Supracide", delivered by an orchard sprayer, to control a rampant infestation of white fly and scale insects.

Sandalwood trees were given their second of three prunings which are aimed at progressively developing a branch-free bole up to 2.5 metres in height. They will be given a final pruning next year.

### **Conclusion**

This plantation remains very impressive and is probably the best of all the plantations in the Ord River Irrigation Area.

### **Balance of Interests**

As at 30 June 2004, the balance of lease interests held by Growers is 302 (30 June 2003: 306).

## RESPONSIBLE ENTITY'S REPORT (CONTINUED)

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### Interests Held by Responsible Entity and Related Parties

At 30 June 2004, 8 lease interests are held by the Responsible Entity and 89 lease interests are held by Related Parties.

The lease interests held by the Responsible Entity are as a result of the termination of "Growers Agreements" due to a failure to pay lease and management fees when they were due, despite repeated requests, since the inception of the Project.

### Environmental Regulations

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

### Fees Paid to Responsible Entity and Associates

Fees of \$81,860.00 were paid to TFS Properties Ltd, Responsible Entity of TFS Sandalwood Project 2000, for provision of its services during the period ended 30 June 2004 (period ended 30 June 2003: \$79,893.00)

### 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 of 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, 6<sup>th</sup> December 2004



# Rix Levy Fowler

CHARTERED BUSINESS ADVISORS

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TFS SANDALWOOD PROJECT 2000

### 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 Sandalwood Project 2000 (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.

#### **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

#### **Postal Address:**

PO Box 44  
West Perth WA 6872

#### **Business Address:**

Level 1,  
12 Kings Park Road,  
West Perth WA 6005

Ph: (08) 9226 4500

Fx: (08) 9226 4300

## **Audit Opinion**

In our opinion, the financial report of TFS Sandalwood Project 2000 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 6<sup>th</sup> day of December 2004

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2004**

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	Notes	2004 \$	2003 \$
<b>REVENUE FROM ORDINARY ACTIVITIES</b>			
Lease and Management Fees		165,153	152,803
Net increment in net value of Sandalwood trees	1(c)	<u>1,000,744</u>	<u>345,455</u>
		<u>1,165,897</u>	<u>498,258</u>
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>			
Accounting fees		2,775	-
Auditor's remuneration		4,125	4,900
Compliance Committee remuneration		8,800	15,961
Filing fees		1,033	1,980
Leasing charges		83,293	72,910
Management fees		81,860	79,893
Marketing expense		-	437
Reimbursement of expenses by Responsible Entity		<u>(16,733)</u>	<u>(23,008)</u>
		<u>165,153</u>	<u>152,803</u>
<b>NET OPERATING INCOME FROM ORDINARY ACTIVITIES</b>		<u><b>1,000,744</b></u>	<u><b>345,455</b></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 \$	2003 \$
<b>CURRENT ASSETS</b>			
Cash	2	-	-
Receivables	3	6,826	16,833
Other	4	42,667	42,667
<b>TOTAL CURRENT ASSETS</b>		<b>49,493</b>	<b>59,500</b>
<b>NON CURRENT ASSETS</b>			
Sandalwood trees	5	4,988,414	3,987,670
Other	6	469,333	512,000
<b>TOTAL NON CURRENT ASSETS</b>		<b>5,457,747</b>	<b>4,499,670</b>
<b>TOTAL ASSETS</b>		<b>5,507,240</b>	<b>4,559,170</b>
<b>CURRENT LIABILITIES</b>			
Payables	7	6,826	16,833
Unearned income	8	42,667	42,667
<b>TOTAL CURRENT LIABILITIES</b>		<b>49,493</b>	<b>59,500</b>
<b>NON-CURRENT LIABILITIES</b>			
Unearned income	9	469,333	512,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>469,333</b>	<b>512,000</b>
<b>TOTAL LIABILITIES</b>		<b>518,826</b>	<b>571,500</b>
<b>NET ASSETS</b>		<b>4,988,414</b>	<b>3,987,670</b>
<b>GROWERS' FUNDS</b>			
Undistributed income reserve	10	4,988,414	3,987,670
<b>EQUITY</b>		<b>4,988,414</b>	<b>3,987,670</b>

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2004**

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	Notes	2004 \$	2003 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Lease and Management Fees received		133,126	152,803
Payments to suppliers		(133,126)	(152,804)
Bank charges		-	-
		<u>-</u>	<u>-</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	12	<u>-</u>	<u>(1)</u>
<b>NET INCREASE IN CASH HELD</b>		-	(1)
Add opening cash brought forward		<u>-</u>	<u>1</u>
<b>CLOSING CASH CARRIED FORWARD</b>	12	<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 YEAR ENDED 30 JUNE 2004

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## 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.

### (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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

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**(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) Comparatives**

The 2003 financial statements cover the period from 1 July 2003 to 30 June 2004. Comparative figures are shown for the period from 1 July 2002 to 30 June 2003.

**(j) 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.

**(k) 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 YEAR ENDED 30 JUNE 2004 (CONTINUED)

	2004 \$	2003 \$
<b>2. CASH</b>		
Cash at bank	-	-
<b>3. RECEIVABLES</b>		
Outstanding fees (i)	5,943	16,583
Other	883	250
	<u>6,826</u>	<u>16,833</u>

(i) Outstanding fees represent monies receivable from Growers in accordance with the prospectus and lease and management agreement. No interest has been charged on amounts due.

(ii) Other represents GST receivable from Manager

**4. OTHER ASSETS (CURRENT)**

Prepayments (i)	<u>42,667</u>	<u>42,667</u>
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(i) Prepayments represent Lease and Management Fees paid to the Manager in advance of the period in which the lease and management services are to be provided.

**5. SANDALWOOD TREES**

<i>at net market value</i>	<u>4,988,414</u>	<u>3,987,670</u>
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**(a) Physical Quantity of Sandalwood Trees owned by Growers**

Number of Sandalwood trees	20,019	21,252
Area under lease (Ha)	51	51

**(b) Nature of Asset**

Investors in the TFS Sandalwood Project 2000 who are referred to as "Growers" subscribed for Sandalwood Lots of size one-sixth of a hectare each upon which Sandalwood trees have been established.

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

The land upon which the Sandalwood plantation is located is owned 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

2004  
\$

2003  
\$

(c) **Significant Assumptions**

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

- 100% of the trees will be harvested and sold in 2015/2016;
- 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 are at 17% per annum.

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

6. **OTHER ASSETS (NON CURRENT)**

Prepayments (i)	469,333	512,000
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- (i) Prepayments represent Lease and Management Fees paid to the Manager in advance of the period in which the lease and management services are to be provided.

7. **PAYABLES**

**Accounts Payable**

Trust funds payable to Responsible Entity (i)	281	14,908
Other (ii)	6,545	1,925
	<u>6,826</u>	<u>16,833</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) Other represents compliance and accounting fees payable.

8. **UNEARNED INCOME (CURRENT)**

Prepaid Lease & Management Fees	42,667	42,667
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9. **UNEARNED INCOME (NON-CURRENT)**

Prepaid Lease & Management Fees	469,333	512,000
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10. **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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

	2004 \$	2003 \$
Opening balance	3,987,670	3,642,215
Net operating income	<u>1,000,744</u>	<u>345,455</u>
Closing balance	<u>4,988,414</u>	<u>3,987,670</u>

**11. DISTRIBUTIONS PAID AND PAYABLE**

No distributions were payable or paid during the period.

**12. STATEMENT OF CASH FLOWS**

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

Net operating income	1,000,744	345,455
<u>Additions:</u>		
Decrease in net receivables	10,640	305,911
Decrease in prepaid expenses	<u>42,667</u>	<u>124,324</u>
	<u>53,307</u>	<u>775,690</u>
<u>(Deductions):</u>		
Decrease in GST paid on operating expenses, not yet remitted	-	(7,267)
Increase in GST paid on operating income, not yet paid	(633)	(668)
Decrease in accounts payable	(10,007)	(297,976)
Increase in prepaid expenses	-	-
Decrease in unearned income	(42,667)	(124,325)
Increase in market value of Sandalwood Trees	<u>(1,000,744)</u>	<u>(345,455)</u>
	<u>(1,054,051)</u>	<u>775,691)</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<u>-</u>	<u>(1)</u>

**(b) Reconciliation of Cash**

Cash balance comprises:

Cash at bank	<u>-</u>	<u>-</u>
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## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

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### 13. RELATED PARTY DISCLOSURES

#### (a) Responsible Entity

The Responsible Entity of the TFS Sandalwood Project 2000 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

#### (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 Sandalwood Project 2000 and carries out the custodial and administrative functions.

Transactions between TFS Sandalwood Project 2000 and TFS Properties Ltd result from normal dealings with that company as the Project's Responsible Entity and holder of a dealer's license.

#### (d) Holdings of Directors and Director-related Entities

A total of 93 lease interests are held by Directors or parties related to Directors on the same terms and conditions as other Growers. No amount is outstanding at year-end.

### 14. 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

\$8,800 (GST exclusive) 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. \$4,125 is outstanding at period end.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004 (CONTINUED)

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### 15. AUDIT

#### (a) Auditors

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

#### (b) Auditors' Remuneration

\$4,125 (GST exclusive) is payable to the auditors, by the Manager, for provision of its services during the year ended 30 June 2004 (year ended 30 June 2003: \$4,900).

### 16. SEGMENT INFORMATION

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

### 17. 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.

### 18. FINANCIAL INSTRUMENTS

#### (a) 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.

#### (b) 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 THE YEAR ENDED 30 JUNE 2004

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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 6<sup>th</sup> day of December 2004