

# TFS SANDALWOOD PROJECT 2006

ANNUAL REPORT  
FOR THE PERIOD TO 30 JUNE 2008

## CONTENTS

---

	PAGE
RESPONSIBLE ENTITY'S REPORT	1-2
INDEPENDENT AUDITOR'S REPORT	3-4
INCOME STATEMENT	5
BALANCE SHEET	6
STATEMENT OF CHANGES IN EQUITY	7
CASH FLOW STATEMENT	8
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	9-19
DIRECTORS' DECLARATION	20
AUDITOR'S INDEPENDENCE DECLARATION	21

## RESPONSIBLE ENTITY'S REPORT

---

The Directors of TFS Properties Ltd (ACN 093 330 977), Responsible Entity for TFS Sandalwood Project 2006 ("the Project"), present their report together with the financial statements of the Project for the period 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 establishment and management of a sandalwood plantation.

### Change of State of Affairs

There were no significant changes in the state of affairs of the project during the period.

### Results of Operations and Likely Developments

The Project made a profit for the year ended 30 June 2008 of \$8,642,594 (2007:\$8,568,609).

This is due to the valuation of the sandalwood trees.

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

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

TFS Project 2006 is spread over a number of locations, which for management purposes are divided into numbered compartments. Part of the project is on King Location 384, compartments 8b and 9, located on Packsaddle Plain a few kilometers south of Kununurra township and planted in the year 2006. The remainder is situated north of Kununurra on the Ivanhoe Plain and is spread between 3 properties. King Location 258 (known as Farm Hill) was planted in 2007 on the four compartments numbered 1 to 4 respectively. Three compartments on King Location 240 (known as Voyager) were also planted in 2007 and are numbered 10, 14 and 15. The final area, King Location 417 on Research Station Road, was numbered 1 - 8.

The trees in compartments 7 and 8 on King Location 384 which were planted in 2006 are now 2 years old and have reached an average height of between 2.5 and 3 metres. Both compartments have had some infilling of host species and they now appear to be reasonably well stocked with both long-term hosts and with sandalwood. The sandalwood were pruned during the year to encourage the development of branch-free lower boles.

## RESPONSIBLE ENTITY'S REPORT

---

Part of the area on King location 258 that was planted in 2007 is being trickle irrigated and part is irrigated by running water along the furrows adjacent to the tree rows. The survival of the planted seedlings of both long-term host and sandalwood was exceptionally high under both irrigation systems, although seedling survival under trickle irrigation was, as would be expected better. *Cassia* hosts were topped in compartment 4 in order to prevent them overtopping the sandalwood trees.

Overall long-term host seedling survival in areas planted in 2007 reached 93% and sandalwood seedling survival was 93% under trickle and 87% under flood irrigation.

In the Voyager (King Location 240) plantation which was also planted in the year 2007 the long term hosts included *Cassia siamea*, *Cathormion umbellatum*, and *Albizia julibrissin*. The latter species has not proven particularly successful to date due to its liability to being defoliated by insects. I anticipate that the plantation manager will develop suitable insect control procedures to overcome this problem.

One quarter of the area of compartment 14 has been planted with no short-term or long-term hosts. The sandalwood trees have survived perfectly well to date by hosting on the pot-host that was planted with them, *Alternanthera nana*. However, the manager has recognized the urgent need to plant longer term hosts and he has a crop of *Acacia trachycarpa* seedlings in the nursery ready for planting out this year.

The sandalwood trees in the 2007 plantings, now one year old, have been given their first pruning to improve their form. This operation involves removing forks and extra large branches. Their next pruning will be aimed at producing a totally branch-free lower bole.

The area planted in 2008 on King Location 417 (Research Station Road) is entirely set up with trickle irrigation. The seedlings are very well advanced for their age, and the standard of weed control in this plantation is outstandingly good. I was hard put to find a weed on my inspection of the area.

Infrastructures on the plantations were maintained as necessary, and invariably after the wet season during which time they can deteriorate quite seriously. Maintenance operations include the removal of silt from water supply channels and drains, and grading access tracks. Channels, drains and the verges of the access tracks are maintained in a weed-free condition by periodically spraying with herbicide.

In summary trees in these plantations are vigorous and healthy and reflect an efficient approach to plantation management.

### 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 T.F.S. Sandalwood Project 2006

We have audited the accompanying financial report of T.F.S. Sandalwood Project 2006, 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.

**Auditor's Opinion**

In our opinion:

- a. The financial report of T.F.S. Sandalwood Project 2006 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

TFS SANDALWOOD PROJECT 2006  
 INCOME STATEMENT  
 FOR THE YEAR TO 30 JUNE 2008

---

	NOTE	2008 \$	2007 \$
<b>REVENUE</b>			
Establishment fees		-	2,842,500
Interest received		225	14,347
Lease & management fees		658,740	190,500
Other income:			
Net increment in net value of biological assets		8,642,594	5,726,109
		<u>9,301,559</u>	<u>8,773,456</u>
<b>EXPENSES</b>			
Audit fees		4,050	3,675
Bad debts / Provision for impairment		-	(500,000)
Bank charges		309	360
Compliance committee remuneration		4,200	4,270
Filing fees		417	1,685
Management fees		549,466	159,750
Leasing fees		109,274	30,750
Reimbursement of expenses by the responsible entity		(8,751)	504,357
		<u>658,965</u>	<u>204,847</u>
<b>NET PROFIT</b>		<u><u>8,642,594</u></u>	<u><u>8,568,609</u></u>

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

TFS SANDALWOOD PROJECT 2006  
BALANCE SHEET  
AS AT 30 JUNE 2008

---

	NOTE	2008 \$	2007 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2	2,285	389,984
Trade and other receivables	3	218,896	3,559,968
Other	4	14,080	6,000
<b>TOTAL CURRENT ASSETS</b>		<u>235,261</u>	<u>3,955,952</u>
<b>NON CURRENT ASSETS</b>			
Biological assets	5	37,161,203	28,518,609
Other	4	168,960	78,000
<b>TOTAL NON-CURRENT ASSETS</b>		<u>37,330,163</u>	<u>28,596,609</u>
<b>TOTAL ASSETS</b>		<u>37,565,424</u>	<u>32,552,561</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	6	221,181	3,949,952
Unearned Income	7	14,080	6,000
<b>TOTAL CURRENT LIABILITIES</b>		<u>235,261</u>	<u>3,955,952</u>
<b>NON CURRENT LIABILITIES</b>			
Unearned Income	7	168,960	78,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>168,960</u>	<u>78,000</u>
<b>TOTAL LIABILITIES</b>		<u>404,221</u>	<u>4,033,952</u>
<b>NET ASSETS</b>		<u>37,161,203</u>	<u>28,518,609</u>
<b>GROWERS' FUNDS</b>			
Undistributed income reserve		37,161,203	28,518,609
<b>EQUITY</b>		<u>37,161,203</u>	<u>28,518,609</u>

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

TFS SANDALWOOD PROJECT 2006  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR TO 30 JUNE 2008

---

	NOTE	Undistributed Income \$	Total \$
<b>Balance at 1.7.2006</b>		19,950,000	19,950,000
Profit for period		8,568,609	8,568,609
Sub-Total		28,518,609	28,518,609
Distributions provided for or paid		-	-
<b>Balance at 30.06.2007</b>		28,518,609	28,518,609
<b>Balance at 1.7.2007</b>		28,518,609	28,518,609
Profit for period		8,642,594	8,642,594
Sub-Total		37,161,203	37,161,203
Distributions provided for or paid		-	-
<b>Balance at 30.06.2008</b>		37,161,203	37,161,203

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

TFS SANDALWOOD PROJECT 2006  
 CASHFLOW STATEMENT  
 FOR THE YEAR TO 30 JUNE 2008

---

	NOTE	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<u>Inflows</u>			
Receipts from growers		3,440,112	14,619,826
Interest received		225	14,347
<u>(Outflows)</u>			
Payments to suppliers		(610,288)	(2,052,923)
	8(b)	2,830,049	12,581,250
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>			
Payment for establishment of plantations		(3,217,748)	(14,685,978)
		(3,217,748)	(14,685,978)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>			
Other		-	-
		-	-
Net increase / (decrease) in cash held		(387,699)	(2,104,728)
Cash at beginning of financial year		389,984	2,494,712
Cash at end of financial year	8(a)	2,285	389,984

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

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the TFS Sandalwood Project 2006. The TFS Sandalwood Project 2006 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)

---

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)

---

### 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)

---

### 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.

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

	NOTE	2008 \$	2007 \$
<b>2. CASH AND CASH EQUIVALENTS</b>			
Cash at bank		2,285	389,984
<b>3. TRADE AND OTHER RECEIVABLES</b>			
Outstanding fees (i)		218,896	3,559,968
Provision for Impairment of outstanding fees		-	-
Outstanding fees (i)		218,896	3,559,968
(i) Outstanding fees represent moneys receivable from growers for the cost of establishment of the plantation. No interest has been charged on amounts due.			
<b>4. OTHER ASSETS</b>			
<b>Current</b>			
Prepayments (i)		14,080	6,000
<b>Non Current</b>			
Prepayments (i)		168,960	78,000
(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.			
<b>5. BIOLOGICAL ASSETS</b>			
Sandalwood trees at cost of establishment (still to be planted at balance date)		-	10,190,000
Sandalwood trees at net market value (planted at balance date)		37,161,203	18,328,609
		37,161,203	28,518,609
<b>(a) Physical quantity of sandalwood trees planted and owned</b>			
Number of sandalwood trees		189,210	103,530
Area under lease (Ha) (planted)		371.0	203.0
Area under lease (Ha) (to be planted)		0.0	168.5
Growers in project (units)		742	743

**(b) Nature of Asset**

Investors in the TFS Sandalwood Project 2006 who are referred to as "Growers" subscribed for Sandalwood Lots of size one-half of a hectare each upon which Sandalwood trees have been established.

The Sandalwood plantations are situated on Blocks 1-4 at King Location 258, Blocks 10,14 and 15 at King Location 240, Blocks 1-8 on King Location 417 and Blocks 8 and 9 on King Location 384. All of these locations are within 15 kilometres from the Western Australian township of Kununurra.

The land upon which the Sandalwood plantation is located is 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 2021.

Until the trees have been planted the value of the trees is represented by the amount of establishment fees paid. Once planted, the net market value of the Sandalwood trees will be determined in accordance with the applicable accounting standards.

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

(c) Significant Assumptions

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

- 20% of the trees will be harvested and sold 13 years after planting;
- 80% of the trees will be harvested and sold 14 years after planting
- 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 between 15%-17% per annum

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

	NOTE	2008 \$	2007 \$
<b>6. TRADE AND OTHER PAYABLES</b>			
Trust funds payable to responsible entity (i)		221,181	3,438,929
GST payable		-	511,023
		<u>221,181</u>	<u>3,949,952</u>

(i) Trust funds payable to responsible entity represents the sum of monies payable by growers to the responsible entity under the lease and management agreement yet to be paid across. No interest in payable on outstanding amounts.

**7. UNEARNED INCOME**

**Current**

Prepaid lease & management fees		14,080	6,000
		<u>14,080</u>	<u>6,000</u>

**Non Current**

Prepaid lease & management fees		168,960	78,000
		<u>168,960</u>	<u>78,000</u>

Represents lease and management fees received in advance of services provided.

	NOTE	2008 \$	2007 \$
<b>8. CASH FLOW INFORMATION</b>			
<b>(a) Reconciliation of cash</b>			
Cash balance comprises:			
Cash at bank		2,285	389,984
		<u>2,285</u>	<u>389,984</u>

**(b) Reconciliation of net operating income to net cash flows from operating activities**

Net operating income		8,642,594	8,568,609
Adjustments:			
(Increase) / decrease in net receivables		3,341,072	10,909,076
(Increase) / decrease in prepayments		(99,040)	(84,000)
(Increase) / decrease in market value of sandalwood trees		(8,642,594)	(5,726,109)
Increase / (decrease) in payables		(511,023)	(1,170,326)
Increase / (decrease) in unearned income		99,040	84,000
<b>Net cash inflow / (outflow) from operating activities.</b>		<u>2,830,049</u>	<u>12,581,250</u>

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

---

### 9. RELATED PARTY DISCLOSURE

#### (a) Responsible Entity

The Responsible Entity of the TFS Sandalwood Project 2006 is TFS Properties Ltd, whose immediate and ultimate holding company is TFS Corporation Limited.

#### (b) Directors and Key management

The Directors and key management of the Responsible Entity during the period were:

Frank Cullity WILSON – Executive Chairman  
Ronald Lionel EACOTT - Director  
Blake William MYLES - Director  
Ian MacKenzie MURCHISON – Director  
Ian Ross THOMPSON – Executive Director  
Tim CROOT – Director  
Quentin MEGSON – Chief Financial Officer

#### (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 2006 and carries out the custodial and administrative functions.

Transactions between TFS Sandalwood Project 2006 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 121 lease interests are held by Directors or parties related to Directors on the same terms and conditions as other Growers. No amounts are outstanding at year end.

#### (e) Key management compensation

No compensation has been paid by the scheme directly, or its responsible entity to key management personnel.

### 10. COMPLIANCE MATTERS

#### (a) Compliance Committee

The Compliance Committee during the period consisted of:

Ron Eacott (Chairman) – Director TFS Properties Ltd  
Robert Marusco – Nissen Kestel & Harford  
John O'Brien – Optima Partners

The Compliance Officer during the period was Roger Pratt of Optima Partners.

#### (b) Remuneration of Compliance Committee

\$4,200 (2007:\$4,270) (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 2008.

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

---

### 11. AUDIT

Bentleys are the auditors of the Project and the Project's Compliance Plan. During the year the auditors received remuneration in relation to the project of \$4,050 (2007: \$3,675)

### 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 2008 the Australian dollar exchange rate with the United States dollar has declined substantially. As this exchange rate is used as part of the calculation of the value of the biological assets this would have a material positive impact on the value of those assets of approximately \$16.3m (on a pre tax basis) as at the date of this report..

No other events have occurred since balance date that has significantly affected or may significantly affect the Project.

### 14: FINANCIAL RISK MANAGEMENT

#### (a) Financial risk management

The project's financial instruments consist mainly of deposits with banks, and accounts receivable.

##### (i) Treasury risk management

The executive chairman and chief financial officer of the responsible entity regularly analyse financial risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The overall treasury risk management strategy is to assist the project in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

##### (ii) Financial risk exposures and management

The main risks the project is exposed to through its financial instruments are interest rate risk, liquidity risk, foreign currency risk, credit risk, and agricultural risk.

#### *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:

#### Financial Assets

Cash	\$2,285
Weighted average debit interest rate (p.a.)	0%
Weighted average credit interest rate (p.a.)	3.00%
Interest rate type	Variable

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

#### *Liquidity risk*

The project manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

#### *Foreign currency risk*

The project is exposed to fluctuations in foreign currencies in relation to its valuation of biological assets and specifically the company owned sandalwood plantations.

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

*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 2008. A provision for impairment is recognised when collection of the full nominal amount is uncertain.

*Agricultural risk*

The project is exposed to agricultural risks in relation to the establishment and maintenance of its sandalwood plantations. These risks are managed by ensuring appropriate qualified staff (including foresters and agronomists etc) are employed to undertake and monitor the agricultural activities. Those activities are underpinned by manuals that have been developed to mitigate many of the risks attributable to the plantations.

*Price risk*

The project is exposed to commodity price risk in relation to its valuation of biological assets and specifically the company owned sandalwood plantations.

**(b) Financial instruments**

(i) As at 30 June 2008 the project had not entered into any derivative financial instruments, foreign exchange contracts, interest rate swaps or similar contracts.

(ii) Net fair values

The Project's financial assets and liabilities included in the Balance Sheet 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.

**(c) Sensitivity Analysis – Interest rate risk, Foreign currency risk, Price risk**

The entity has performed a sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change to these risks.

*Interest rate sensitivity*

At 30 June 2008, the effect on profit and equity as a result of changes in the after tax interest rate, with all other variables remaining constant would be as follows:

	2008 \$	2007 \$
Change in profit		
- increase in interest rate by 1% point	16	2,730
- decrease in interest rate by 1% point	(16)	(2,730)
Change in equity		
- increase in interest rate by 1% point	16	2,730
- decrease in interest rate by 1% point	(16)	(2,730)

*Foreign currency risk sensitivity analysis*

At 30 June 2008, the effect on profit and equity as a result of changes in the after tax value of the Australian dollar to the US Dollar, with all other variables remaining constant would be as follows:

	2008 \$	2007 \$
Change in profit		
- improvement in AUD to USD by 5%	(1,330,705)	(678,159)
- decline in AUD to USD by 5%	1,330,704	678,159
Change in equity		
- improvement in AUD to USD by 5%	(1,330,705)	(678,159)
- decline in AUD to USD by 5%	1,330,704	678,159

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

---

*Price risk sensitivity analysis*

At 30 June 2008, the effect on profit and equity as a result of changes in the after tax price risk, with all other variables remaining constant would be as follows:

	2008	2007
	\$	\$
Change in profit		
- increase in sandalwood oil price by \$100/kg	1,254,032	632,337
- decrease in sandalwood oil price by \$100/kg	(1,254,033)	(632,337)
Change in equity		
- increase in sandalwood oil price by \$100/kg	1,254,032	632,337
- decrease in sandalwood oil price by \$100/kg	(1,254,033)	(632,337)

**15. PROJECT DETAILS**

The registered office of the project is:

254 Adelaide Terrace  
Perth WA 6000

The principal places of project are

Head Office  
254 Adelaide Terrace  
Perth WA 6000

Plantation  
King Location 385, Packsaddle Road  
Kununurra WA 6743

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

16. CHANGES IN ACCOUNTING POLICIES

The following Australian Accounting Standards have been issued or amended and are applicable to the project but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

<b>AASB Amendment</b>	<b>Standards Affected</b>	<b>Outline of Amendment</b>	<b>Application Date of the Standard</b>	<b>Application Date for the Group</b>
AASB 2007-3 Amendments to Australian Accounting Standards	AASB 5: Non current assets held for sale and discontinued operations. AASB 6: Exploration for and evaluation of minerals AASB 102: Inventories AASB 107: Cash flow statements AASB 119: Employee benefits AASB 127: Consolidated and separate financial statements AASB 134: Interim financial reporting AASB 136: Impairment of assets AASB 1023: General insurance contracts. AASB 1038: Life insurance contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However it is anticipated there will be no direct impact on recognition and measurement criteria amounts to be included in the financial report.	1 January 2009	1 July 2009
AASB 8 Operating Segments	AASB 114: Segment Reporting	As above	1 January 2009	1 July 2009
AASB 2207-6 Amendments to Australian Accounting Standards	AASB 1: First time adoption of AIFRS AASB 101: Presentation of financial statements. AASB 107: Cash flow statements AASB 111: Construction contracts AASB 116: Property, plant and equipment AASB 138: Intangible assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1 January 2009	1 July 2009
AASB 123 Borrowing costs	AASB 123: Borrowing costs	As above	1 January 2009	1 July 2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101: Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity,	1 January 2009	1 July 2009
AASB 101	AASB 101: Presentation of Financial Statements	As above.	1 January 2009	1 July 2009

All other pending Standards issued between the previous financial report and the current reporting dates have no application to the project.

**DIRECTORS' DECLARATION  
FOR THE YEAR TO 30 JUNE 2008**

---

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 2008 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



**FRANK CULLITY WILSON**  
DIRECTOR

Dated: this 14<sup>th</sup> day January, 2009

To The Board of Directors

**Auditor's Independence Declaration  
under Section 307C of the Corporations Act 2001**

This declaration is made in connection with our audit of the financial report of T.F.S. Sandalwood Project 2006 for the year ended 30 June 2008 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- no contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the audit.

Yours faithfully



**BENTLEYS**  
Chartered Accountants



**RANKO MATIĆ**  
Director

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