

TFS SANDALWOOD PROJECT 2007

ANNUAL REPORT
FOR THE PERIOD TO 30 JUNE 2008

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RESPONSIBLE ENTITY'S REPORT

The Directors of TFS Properties Ltd (ACN 093 330 977), Responsible Entity for TFS Sandalwood Project 2007 ("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 was no significant change 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 \$7,030,124 (2007: \$31,903,000).

This is due to the valuation of sandalwood trees and the receipt of fees for the establishment of 142 one sixth hectare lots.

All of the TFS2007 lots have been planted in dry season 2008.

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 is spread over a number of locations which for management purposes are divided into numbered compartments. All are situated on the Ivanhoe Plain and are 10 to 20 kilometres north of Kununurra. Part of the project is on King Location 417 (one compartment) and King Location 239/2 (two compartments), both forming a part of the Research Station Road Plantation. Part is on King Location 257 (Voyager) with compartments numbered consecutively from 1 to 8. The remainder is on King Location 259 (Ivanhoe East) with compartments numbered consecutively from 1 to 7.

All were planted over the period early April to the end of June 2008.

Early preparation of the ground prior to planting involved laser leveling each property to establish a uniform slope to ensure that irrigation water flowed evenly and that excess water from wet season rainfall was drained away rapidly but without causing soil erosion. In some cases this had been done by the previous owner of the land, and in some cases by TFS. The land was cropped in the dry season of the year before tree planting by lessee farmers; this assists in later weed control. It was then ploughed, deep ripped to aid the penetration of tree roots, and formed into beds. These were subsequently cultivated to a fine tilth and watered to germinate weeds which were then sprayed out with herbicide. In particularly weedy areas this procedure was repeated. Some compartments were cropped by TFS over the wet season before planting using the tropical legume known as lab-lab (*Lablab purpurea*). This plant produces copious amounts of organic matter and fixes atmospheric nitrogen. The lab-lab was sprayed with herbicide shortly before planting began, and the tree seedlings were planted into the organic trash that remained from the crop.

RESPONSIBLE ENTITY'S REPORT (CONTINUED)

The host species seedlings in their relatively small containers were planted using a standard forestry tree planting tube which goes by the name "Potti-Putki" (the name and the tool probably originated in Scandinavia). In a few areas seed of the short-term host *Sesbania* was sown directly into the ground. The sandalwood seedlings had been raised in much larger pots to accommodate both sandalwood and a pot host seedling, and these were planted into holes dug by hand.

The planting configuration of host and sandalwood seedlings was standard throughout this project. Rows of sandalwood seedlings alternate with rows of long-term hosts. A short-term *Sesbania* host was planted in the sandalwood rows at the rate of one for each sandalwood seedling. Two long-term host species were planted, *Cathormion umbellatum* and *Cassia siamea*. These two species were also alternated between the long-term host tree rows.

Early survival counts have been made on the Research Station Road and Ivanhoe East plantations. Survival of all three species that were counted, sandalwood, *Cathormion* and *Cassia* averaged 90% or greater. In my opinion, this is a remarkable achievement and a credit to the plantation manager.

Maintenance operations after planting comprised watering and the control of weeds.

Two types of irrigation system were used, furrow and trickle or dripper irrigation. The Ivanhoe East (King Location 259) and the King Location 239/2 plantation units were furrow irrigated, with the exception of half of Ivanhoe compartment 5 where, because of difficult soil types over half the compartment, this part was watered by trickle. All other compartments in this project were watered by trickle irrigation.

Efficient weed control is vital to the successful establishment of a new plantation, and to its vigorous growth over the first two years of its life. Weeds growing within the access rows where there are no tree seedlings have been controlled by spraying herbicide with a sprayer that is shrouded by canvas to eliminate the risk of spray drift. Weeds appearing in the rows planted with trees are controlled by a combination of spot-spraying herbicide by hand, and by chipping out weeds with a mattock. Weed control over the majority of the project 2007 plantations is exemplary and when I inspected the plantations they were virtually weed free.

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

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 22 of the financial report.

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



Frank Cullity Wilson

Perth, 14th January, 2009

Independent Audit Report

To the Members of T.F.S. Sandalwood Project 2007

We have audited the accompanying financial report of T.F.S. Sandalwood Project 2007, 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 2007 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 14th day of January 2009

TFS SANDALWOOD PROJECT 2007
 INCOME STATEMENT
 FOR THE YEAR TO 30 JUNE 2008

	NOTE	2008 \$	2007 \$
REVENUE			
Establishment fees		1,372,000	31,903,000
Other income:			
Net increment in net value of biological assets		5,658,124	-
		<u>7,030,124</u>	<u>31,903,000</u>
EXPENSES			
Audit fees		4,050	3,675
Bank charges		170	44
Compliance committee remuneration		4,200	4,270
Filing fees		417	1,685
Reimbursement of expenses by the responsible entity		(8,837)	(9,674)
		<u>-</u>	<u>-</u>
NET PROFIT		<u>7,030,124</u>	<u>31,903,000</u>

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

TFS SANDALWOOD PROJECT 2007
 BALANCE SHEET
 AS AT 30 JUNE 2008

	NOTE	2008 \$	2007 \$
CURRENT ASSETS			
Cash and cash equivalents	2	3,503	6,040,797
Trade and other receivables	3	870,148	25,509,651
Other	4	-	-
TOTAL CURRENT ASSETS		873,651	31,550,448
NON CURRENT ASSETS			
Biological assets	5	38,933,124	31,903,000
Other	4	-	-
TOTAL NON-CURRENT ASSETS		38,933,124	31,903,000
TOTAL ASSETS		39,806,775	63,453,448
CURRENT LIABILITIES			
Trade and other payables	6	873,651	31,550,448
Unearned Income	7	-	-
TOTAL CURRENT LIABILITIES		873,651	31,550,448
NON CURRENT LIABILITIES			
Unearned Income	7	-	-
TOTAL NON-CURRENT LIABILITIES		-	-
TOTAL LIABILITIES		873,651	31,550,448
NET ASSETS		38,933,124	31,903,000
GROWERS' FUNDS			
Undistributed income reserve		38,933,124	31,903,000
EQUITY		38,933,124	31,903,000

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

TFS SANDALWOOD PROJECT 2007
 STATEMENT OF CHANGES IN GROWERS' FUNDS
 FOR THE YEAR TO 30 JUNE 2008

	NOTE	Undistributed Income \$	Total \$
		<u> </u>	<u> </u>
Balance at 1.7.2006		-	-
Profit for period		31,903,000	31,903,000
Sub-Total		<u>31,903,000</u>	<u>31,903,000</u>
Distributions provided for or paid		-	-
Balance at 30.06.2007		<u>31,903,000</u>	<u>31,903,000</u>
Balance at 1.7.2007		31,903,000	31,903,000
Profit for period		7,030,124	7,030,124
Sub-Total		<u>38,933,124</u>	<u>38,933,124</u>
Distributions provided for or paid		-	-
Balance at 30.06.2008		<u>38,933,124</u>	<u>38,933,124</u>

The Statement of Changes in Growers' Funds should be read in conjunction with the accompanying notes.

TFS SANDALWOOD PROJECT 2007
 CASHFLOW STATEMENT
 FOR THE YEAR TO 30 JUNE 2008

	NOTE	2008 \$	2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
<u>Inflows</u>			
Receipts from growers		26,148,703	9,583,649
Interest received		-	-
<u>(Outflows)</u>			
Payments to suppliers		(3,327,500)	-
	8(b)	22,821,203	9,583,649
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Payment for establishment of plantations		(28,858,497)	(3,542,852)
		(28,858,497)	(3,542,852)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Other		-	-
		-	-
Net increase / (decrease) in cash held		(6,037,294)	6,040,797
Cash at beginning of financial year		6,040,797	-
Cash at end of financial year	8(a)	3,503	6,040,797

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 2007. The TFS Sandalwood Project 2007 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 \$
2. CASH AND CASH EQUIVALENTS			
Cash at bank		3,503	6,040,797
3. TRADE AND OTHER RECEIVABLES			
Outstanding fees (i)		870,148	25,509,651
Provision for Impairment of outstanding fees		-	-
Outstanding fees (i)		870,148	25,509,651

(i) Terms and conditions

The outstanding fees represent moneys receivable from growers for the cost of establishment of the plantation. The outstanding amounts are non interest bearing and generally of terms of 30 days and 12 months.

(ii) Aging of past due but not impaired

60 - 90 days	-	-
90 - 120 days	-	-
120+ days	-	-
Total	-	-

In determining the recoverability of outstanding fees, the responsible entity considers the change in credit quality of the receivable from the date the credit was initially granted up to the reporting date. The responsible entity also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. The security will often be the value of the TFS tree lots that relate to the debtor balance. It is not unusual for debtors to extend beyond 120 days due to the availability of payment terms under the project.

(iii) Movement in the provision for impairment of receivables (current)

Balance at the beginning of the year	-	-
Impairment losses recognised on receivables	-	-
Amounts written off/(recovered) as uncollectible	-	-
Amounts recovered during the year	-	-
Impairment losses reversed	-	-
Balance at the end of the year	-	-

(iv) Ageing of impaired trade receivables (current)

	2008 No.	2007 No.
60 - 90 days	-	-
90 - 120 days	-	-
120+ days	-	-
Total	-	-

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

	NOTE	2008 \$	2007 \$
4. OTHER ASSETS			
Current			
Prepayments (i)		-	-
Non Current			
Prepayments (i)		-	-
(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. BIOLOGICAL ASSETS			
Sandalwood trees at cost of establishment (still to be planted at balance date)		67,238	31,903,000
Sandalwood trees at net market value (planted at balance date)		38,865,886	-
		<u>38,933,124</u>	<u>31,903,000</u>
(a) Physical quantity of sandalwood trees planted and owned			
Number of sandalwood trees		271,407	-
Area under lease (Ha) (planted)		532.2	-
Area under lease (Ha) (to be planted)		1.2	509.7
Growers in project (units)		3,200	3,058

(b) Nature of Asset

Investors in the TFS Sandalwood Project 2007 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 plantations are situated on King Location Lots 240 and 257 ("Voyagers farm"), King Location 259 (Ivanhoe Plains), and Lot 53 Weaver Plains Road. 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 2022.

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.

(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 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 YEAR TO 30 JUNE 2008 (CONTINUED)

9. RELATED PARTY DISCLOSURE

(a) Responsible Entity

The Responsible Entity of the TFS Sandalwood Project 2007 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 2007 and carries out the custodial and administrative functions.

Transactions between TFS Sandalwood Project 2007 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 nil 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 \$15.3m (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	\$3,503
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	25	3,476
- decrease in interest rate by 1% point	(25)	(3,476)
Change in equity		
- increase in interest rate by 1% point	25	3,476
- decrease in interest rate by 1% point	(25)	(3,476)

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%	(1,397,373)	-
- decline in AUD to USD by 5%	1,397,373	-
Change in equity		
- improvement in AUD to USD by 5%	(1,397,373)	-
- decline in AUD to USD by 5%	1,397,373	-

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	1,316,860	-
- decrease in sandalwood oil price by \$100/kg	(1,316,860)	-
Change in equity		
- increase in sandalwood oil price by \$100/kg	1,316,860	-
- decrease in sandalwood oil price by \$100/kg	(1,316,860)	-

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.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of the Standard	Application Date for the Group
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 14th 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 2007 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 14th day of January 2009