
S U P P L E M E N T A R Y P D S
TFS SANDALWOOD PROJECT
I N D I A N S A N D A L W O O D
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SUPPLEMENTARY PRODUCT DISCLOSURE STATEMENT

TFS SANDALWOOD PROJECT 2009 (ARSN 135 373 938)

IMPORTANT INFORMATION

This document is a Supplementary Product Disclosure Statement and should be read together with the Product Disclosure Statement dated 4 March 2009 (Original Product Disclosure Statement) issued by TFS Properties Ltd (ABN 31 093 330 977) for interests in the TFS Sandalwood Project 2009 (ARSN 135 373 938) (the Project). This Supplementary Product Disclosure Statement must be read together with the Original Product Disclosure Statement.

This Supplementary Product Disclosure Statement is dated 22 June 2009 being the date that its preparation was completed.

Unless otherwise indicated, defined terms used in this Supplementary Product Disclosure Statement have the same meaning as given to those terms in the Original Product Disclosure Statement. To the extent of any inconsistency between this Supplementary Product Disclosure Statement and the Original Product Disclosure Statement, the provisions of this Supplementary Product Disclosure Statement will prevail.

This Supplementary Product Disclosure Statement may be viewed, together with the Original Product Disclosure Statement, at the Company's website address www.tfsltd.com.au.

This document is important and should be read in its entirety. If you do not understand its contents, you should consult your stock broker, accountant or other professional adviser without delay.

PURPOSE OF THIS SUPPLEMENTARY PRODUCT DISCLOSURE STATEMENT

The purpose of this Supplementary Product Disclosure Statement is to update the information in the Original Product Disclosure Statement and incorporate additional information into the Original Product Disclosure Statement.

Specifically, this Supplementary Product Disclosure Statement incorporates additional information regarding the financial position of TFS Properties and the performance of similar Sandalwood projects operated by TFS Properties.

All information contained in this Supplementary Product Disclosure Statement is deemed to be included in the Original Product Disclosure Statement.

SUPPLEMENTARY INFORMATION

1. FINANCIAL INFORMATION RELATING TO THE RESPONSIBLE ENTITY

OVERVIEW

TFS Properties is a wholly owned subsidiary of TFS Corporation Limited (TFS Corporation), a company listed on the Australian Securities Exchange (ASX).

TFS Corporation, together with its subsidiaries (together, the TFS Group) maintains a strong financial position through:

- a) targeting and maintaining conservative gearing levels;
- b) generating annual cashflows from its business of operating existing and new Sandalwood plantation managed investment schemes (MIS); and
- c) seeking to diversify its income base with revenues from additional operations such as sandalwood processing and distribution and non-MIS plantation sales.

Further information regarding these specific aspects of the TFS Group's financial position, and their impact on an investment in the Project, is set out in this Supplementary Product Disclosure Statement.

Detailed financial information regarding the TFS Group is available from TFS Corporation's announcements to ASX, and on TFS Corporation's website, www.tfsltd.com.au.

A summary of the consolidated balance sheets for the TFS Group as at 30 June 2008 and 31 December 2008 is set out below:

	31 December 2008	30 June 2008
Total Current Assets	\$22,436,480	\$55,988,543
Total Non Current Assets	\$161,481,480	\$110,719,927
TOTAL ASSETS	\$183,919,160	\$166,708,470
Total Current Liabilities	\$11,467,784	\$22,365,014
Total Non Current Liabilities	\$57,137,266	\$30,373,399
TOTAL LIABILITIES	\$68,605,050	\$52,738,413
NET ASSETS	\$115,314,110	\$113,970,057

GEARING

TFS Corporation's target gearing ratio range is 0% to 25%. As at June 2008, the TFS Group was in a net cash position, with a gearing ratio of negative 4.8%.

As announced to ASX in August 2008, TFS Corporation acquired 100% of Mt Romance Australia Pty Ltd (MRH), a major processor and distributor of Australian sandalwood products. This acquisition was funded by a mixture of cash already held by TFS Corporation (\$9.9 million), debt (TFS Corporation assumed \$17.6 million of MRH debt into its facility with Commonwealth Bank of Australia) and equity (\$1.1 million of TFS Corporation shares). This acquisition was therefore the primary contributing factor in an increase in the TFS Group's gearing ratio to 22.5% as at 31 December 2008. Whilst this ratio remains relatively conservative, TFS Corporation expects its gearing levels to fall significantly below 20% by the end of this financial year through sales of MIS in the ordinary course of its business.

Further, the TFS Group's current gearing level is post the acquisition of substantial land banks which the TFS Group anticipates will support future MIS plantings until approximately 2012/2013.



The TFS Group has a corporate bank debt facility of \$43 million available. It is a term of this facility that the TFS Group has a debt service coverage ratio of greater than 2.0 times, and a debt to equity ratio of less than 40%. The TFS Group currently has debt service coverage ratio of approximately 3 times, and a debt to equity ratio of 22.5%, and so is well below the covenant limits.

In addition to the primary corporate debt facility, the TFS Group has a short term corporate funding facility of \$25 million to assist with funding the Arwon Finance Pty Ltd loans which are available to investors for the purpose of funding the establishment fees for the projects.

TFS expects to be net debt free by 30 June 2009, based on the assumption that targeted sales of 950 hectares are achieved.

ACCESS TO CASHFLOWS AND AVAILABILITY OF WORKING CAPITAL

As the responsible entity of the 2009 Project, TFS Properties is responsible for ensuring that each Grower's Sandalwood Trees are established, cultivated and, if the Grower is an Electing Grower, harvested and sold.

In fulfilling these obligations, TFS Properties requires access to adequate working capital on an ongoing basis. Working capital requirements are generally higher in the initial years of a project, and decrease as the Trees become more established.

The TFS Group ensures that there is sufficient working to meet these obligations as follows:

PROJECT FEES:

Each investor in all TFS MIS projects, including the 2009 Project, must pay an initial establishment fee to cover the costs of establishing their Trees. These fees are paid into a custodian account pending acceptance of the investor's application. Following acceptance of applications, these funds are transferred into an operating account. TFS Properties subsequently makes payments to the Project manager, Tropical Forestry Services Limited (Manager), to fund the establishment of the plantations for the Project.

In each year after the establishment period, investors must either:

- a) elect to pay the annual management fee and rent, which cover the cost of cultivating and maintaining the Trees; or
- b) elect that these fees be deferred in return for payment to TFS Properties of a specified percentage of the investor's proceeds of the sale of the Sandalwood Trees.

The receipt of annual fees from non-deferring investors in each project has historically been sufficient to cover the majority of expenses of TFS Properties in maintaining the whole plantation for the relevant project.

These annual fees are paid by TFS Properties to the Manager to carry out the cultivation and maintenance services on the plantations.

In addition, the TFS Group has access to income from other sources as outlined below, which ensures that there is adequate working capital to meet TFS Properties' obligations under the lease and management agreements.

OTHER REVENUE SOURCES:

In addition to the annual fees received from an MIS project, the TFS Group has broadened its income base to include non-MIS sources.

Particularly, over the past two years, the TFS Group has been actively seeking strategic opportunities in the downstream processors of Sandalwood and Sandalwood oil.

This has resulted in two significant transactions which the TFS Group believes strengthens the financial position of the TFS Group, by diversifying the income base of the TFS Group, and increasing demand for the Sandalwood trees grown by the TFS Group.

The first transaction was the acquisition of MRH, a major processor of Australian Sandalwood oil, which was announced to ASX in August 2008. The integration of the technical and marketing capabilities of MRH and the TFS Group not only provides an immediate additional revenue stream to the TFS Group, but represents a significant step towards the TFS Group's goal of becoming a vertically integrated producer of Sandalwood, Sandalwood oil and related products.

The second transaction was the formation of a joint venture company with the Emirates Investment Group (EIG) which was announced to ASX on 19 May 2009. The TFS Group believes that this joint venture will enhance the TFS Group's income base by supporting demand for non-MIS sales of new plantations.

In addition to the above, the TFS Group also has:

- a) a direct holding of approximately 200 hectares of Sandalwood trees in its own right; and
- b) an indirect interest in the Sandalwood trees held by existing investors who have elected to defer their annual MIS rent and management fees. In return for deferring these annual fees, these investors have agreed to pay to TFS Properties a specified percentage of returns from harvest of their Sandalwood trees.



As a result of these interests, the TFS Group expects to receive additional annual income from each harvest commencing in 2012.

WORKING CAPITAL REQUIREMENTS FOR HARVESTING AND PROCESSING:

The costs of harvesting and processing the Sandalwood Trees is expected to be funded from the proceeds received from the sale of the logs.

As disclosed in the Original Product Disclosure Statement, Electing Growers pay a fee currently estimated to be \$2,666 (plus GST) per Sandalwood Lot to cover these costs, which is deducted from their Gross Proceeds of Sale.

As this fee is received by the Responsible Entity after the harvesting and processing of the logs, the Responsible Entity must ensure that it has sufficient working capital to meet the expenses associated with harvesting and processing the Sandalwood Trees.

TFS Properties anticipates that it will have access to sufficient working capital to fund the costs of harvesting and processing by virtue of:

- a) finance for the costs of harvesting and processing from the purchasers of the Sandalwood products. The TFS Group is working towards being an integrated producer of Sandalwood products and aims to have contractual arrangements in place for the purchase of the Sandalwood products prior to harvest. It is standard industry practice that any such purchase arrangements will provide for the funding of harvesting and processing by the purchaser of the products;
- b) the annual fees received for the Project. These fees are the same in each year (subject to indexing at 3% per annum, and differences resulting from different numbers of annual fee deferrals in each year), however the ongoing costs associated with the Project decrease over time. Accordingly, TFS Properties may be able to fund some or all of the costs of harvesting from the annual fees received from the non-deferring Growers; and
- c) to the extent that the costs of harvesting and processing cannot be met from the working capital sources outlined in paragraphs (a) and (b), the TFS Group would rely on funding from non-MIS sources to meet these costs, to the extent that those sources are available.

Whilst TFS Properties expects that the above funding sources will be sufficient to meet the costs of harvesting and processing the Trees, TFS Properties cannot guarantee that it will have sufficient working capital to meet these costs. Further information on this risk is set out below.

ACCESS TO ADDITIONAL CAPITAL:

In addition to the above, the TFS Group has access to the \$43 million corporate funding facility referred to above.

As a listed company, TFS Corporation also has the option of seeking additional capital from equity markets, including fundraising from existing shareholders and institutional investors.

IMPACT OF REDUCED MIS SALES ON THE RESPONSIBLE ENTITY

For the reasons outlined above, TFS Properties is not solely reliant on future MIS sales to fund its existing contractual obligations under the Lease and Management Agreement for the Project, or under any of its existing lease and management agreements for other projects.

If MIS sales were to significantly decrease in the short term, the TFS Group believes that it has adequate access to working capital from the sources outlined above to ensure that TFS Properties can continue to meet its existing contractual obligations, and to satisfy the requirements which apply to TFS Properties under its Australian Financial Services Licence.

Furthermore, if MIS sales were to significantly decrease in the long term the TFS Group is confident that it would have access to sufficient revenue and working capital from numerous sources to ensure that TFS Properties can continue to meet its obligations to its investors. The sources of funds include ongoing lease & management fees, proceeds from the harvest of TFS owned sandalwood trees, profits from its other businesses, and access to institutional or non MIS plantation sales. TFS Corporation is confident in achieving significant non-MIS sales from the Middle East via the EIG joint venture company in the near term.

Sales for the TFS Sandalwood Project 2008 totalled 790 hectares. MIS sales for the TFS Sandalwood Project 2009 are up 18% on the previous year's sales to 19 June. Accordingly, the targeted sales figures of 950 hectares is a reasonable expectation assuming this sales trend continues.



INVESTING IN SANDALWOOD

2. INFORMATION REGARDING YIELD EXPECTATIONS AND PERFORMANCE OF PREVIOUS PROJECTS

The Original Product Disclosure Statement includes an Expert Forester's Report by Mr Peter Kimber of Kimber Environment Services (Expert Forester's Report).

Set out below is an addendum to the Expert Forester's Report which provides to investors further information regarding the performance of the other sandalwood projects operated by the TFS Group.

THE PERFORMANCE OF TFS SANDALWOOD PROJECT PLANTATIONS

In summary, the current TFS Sandalwood projects engage plantation techniques and management that are world best practice for growing Indian sandalwood. The projects are run and controlled by a General Manager, Forestry Operations who is well versed in forestry theory and practice and has a considerable experience in project management. He is supported by a qualified forester of extremely good reputation who supervises an experienced team of trained foresters in charge of each geographical plantation location, an agronomist with expertise in irrigation and soil management, and an experienced nursery manager. This contrasts with the limited staff that had been involved in running the earlier TFS Sandalwood projects.

The success of the more recent plantations is attributable to the refinement of establishment and management techniques. Many technical problems can now be avoided, and the range of expertise available in the staff managing the projects ensures that when the more difficult problems arise, they are rapidly and efficiently dealt with.

REVIEW OF PAST PROJECTS

The first plantings were undertaken by the Responsible Entity in 1999 under the East Kimberley Sandalwood Project No.1 (EKS1). While this plantation has suffered poor survival rates and some suppression of growth due to unsuitable host selection, the Responsible Entity has established an additional 25 hectares of plantation to meet any shortfall in yields resulting from the low stocking rate. African Mahogany, the host species selected in EKS1 is no longer used by the Responsible Entity as a host species in the current projects.

The 2001 plantation, established under the project title "TFS 2", was planted under two quite different configurations of sandalwood and its hosts. The more successful configuration is now used as standard practice except where plantations are irrigated using trickle tape.

The other configuration used in the project proved unsuccessful and resulted in a suppression of the host species. The Responsible Entity has made annual attempts to introduce new host species

and to reinvigorate the surviving original hosts, with the latter proving successful. In 2004 there was an outbreak of the Phytophthora fungus. Treatment was completely successful and all the sandalwood recovered and are now flourishing.



TFS Sandalwood Projects 2000 to 2004 were established on the Packsaddle Plain in a number of separate Compartments, each approximately 50 hectares in area. TFS Sandalwood Project 2000 was planted in two compartments in the year 2001. In Compartment 1 the sole permanent host was *Cathormion umbellatum*, a leguminous tree native to the East Kimberley Region and a proven quality host. The *Cathormion* suffered severe insect attack for which the Responsible Entity sought advice from a Kimberley entomologist. The insects were brought under control after two years of intensive insecticide applications, however the sandalwood had declined due to lack of hosting. The recovering *Cathormion* were given liberal fertilizer applications to boost their health, and this benefit was passed on to the sandalwood component of the plantation. It is now standard practice to put at least two, and most frequently three, different host species in all plantations.

TFS Sandalwood Projects 2003, 2004 and 2004 Premium were planted over the years 2003 to 2006. One particular compartment had drainage problems. It was re-laser leveled and replanted in 2007. All projects are successful with the proviso that the stocking level of sandalwood trees does not meet the target levels as disclosed in the relevant product disclosure statement for the projects. However, stocking levels are close enough to the forecast levels to ensure that projected yields are likely to be met. This is due to the trees standing at a lower density in a plantation growing faster than those in denser situations.

The eastern edge of Packsaddle Compartments 1 to 5 inclusive is bordered by a water supply channel. Slight leakage from this channel has kept the nearby soil permanently moist and sandalwood trees in the row immediately adjacent to the channel (approximately 0.5% of the compartment) have almost all been killed by the fungus *Phytophthora cinnamomi*. As the moisture in this situation could not be controlled, the Responsible Entity was advised that it would not be possible to control the fungus. In response to this it is now standard practice to plant only host trees adjacent to the edges of plantations to avoid uncontrollable edge effects of this nature. Note that the permanent host species are all resistant to *Phytophthora*.

The TFS Sandalwood Projects 2005, 2006 and 2007 constitute the largest area of plantations established and managed by the Responsible Entity, and are spread over part of the Packsaddle Plain and partly over the northern Ivanhoe Plain, all within a few kilometres of Kununurra. The project areas are characterized by an exceptionally high standard of weed control, and stocking levels that meet the target levels set out in the product disclosure statements. Further, the size and health of the trees in each of the projects is consistent with the expectations of the Responsible Entity, and the Responsible Entity is not aware of any reason why the yield estimates for any of the projects would not be met.

In view of the generally lower stocking levels for sandalwood in the earlier plantations, the Responsible Entity increased the planting rate for sandalwood from 463 seedlings per hectare to 505 per hectare from the 2005 project onwards. Survival rates, due in no small measure to the high standard of weed control in the first year after planting, are excellent and meet the target levels disclosed in the product disclosure statements. The average stocking level of sandalwood seedlings at one year after planting in TFS 2007 was recently assessed as 80 plus percent giving an average of over 400 sandalwood seedlings per hectare.

Peter Kimber, BSc Forestry(Hons), MIFA
Forestry Consultant.
15th June 2009



3. RISK FACTORS



The Original Product Disclosure Statement includes a section disclosing a number of risks associated with an investment in the Project.

Set out below are further details in relation to these risks, and information on additional risks, which investors should consider in deciding whether or not to invest in the Project.

DECREASE IN MIS SALES

A decrease in future MIS sales would result in a decrease in the revenue of the TFS Group and a corresponding decrease in the funds available to meet existing obligations.

However, as noted above, TFS Group believes that it has adequate access to working capital from non-MIS sources, and ongoing lease and management fees, to ensure that TFS Properties can continue to meet its existing contractual obligations, and to satisfy the requirements which apply to TFS Properties under its Australian Financial Services Licence. TFS also remains confident in achieving significant non-MIS sales from the Middle East via the EIG joint venture company in the near term.

INSOLVENCY OF THE RESPONSIBLE ENTITY

As set out above, the TFS Group is currently in a strong financial position. Due to the inability of any company to provide a guarantee of its financial position in 15 years' time, it is important to note the following risks.

An investment in the Project may be adversely affected if TFS Properties has insufficient funds to meet its financial commitments, or to meet the financial requirements imposed by TFS Properties' Australian Financial Services Licence.

In the event that TFS Properties were to become insolvent, the ongoing viability of the Project would rely upon the ability to engage a new entity to act as the responsible entity of the Project. There is no guarantee that an alternative qualified and willing responsible entity would be available.

WORKING CAPITAL RISK

There is a risk that TFS Properties may be unable to access sufficient funding to meet its working capital requirements for the purpose of both cultivating and harvesting and processing the Trees. This may adversely affect an investment in the Project by resulting in a decrease in the amount realised from the sale of the Trees, or preventing an investor from realising their investment in the Project.

However, as noted above, TFS Properties receives annual fees from each of its projects which funds part of the working capital requirements in each year. Further, the TFS Group is seeking to diversify its income base to ensure that it has alternative funds to rely on in the event that annual project fees are insufficient to meet working capital obligations. TFS Corporation also has access to undrawn debt facilities and could seek additional equity capital.

4. DIRECTOR'S AUTHORISATION AND RESPONSIBLE STATEMENT

Each Director of TFS Properties Ltd has given and has not, as at the date of this Supplementary Product Disclosure Statement withdrawn their consent to the preparation and content of this Supplementary Product Disclosure Statement.

This Supplementary Product Disclosure Statement was completed on 22 June 2009 and signed on the same date by Frank Wilson, Director of TFS Properties Limited.

A handwritten signature in black ink, appearing to read 'Frank Wilson', with a horizontal line underneath.

Frank Cullity Wilson
For and on behalf of
TFS PROPERTIES LIMITED

