



Product Disclosure Statement

# TFS Sandalwood Project 2006

Indian Sandalwood





Product Disclosure Statement

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# Important Notices

## Important Notices

This Product Disclosure Statement ('PDS') contains important information about investing in the TFS Sandalwood Project 2006 (ARSN 117 134 611) (the 'Project'). It should be read carefully and in its entirety. Before deciding whether to subscribe for a Sandalwood Lot in the Project you should consider whether investing in this Managed Investment Scheme is suitable for you. If you are unfamiliar with investments of this kind or if after reading this you are unsure whether or not you should invest, you should consult your licensed financial adviser.

This PDS is dated 28 November 2005 and is issued by the Responsible Entity, TFS Properties Ltd (ACN 093 330 977). Except for those parts of the PDS consisting of, or based on reports from experts, the Responsible Entity is responsible for its contents.

Investments in the Project are speculative in nature. No person, firm or corporation associated with this PDS guarantees, warrants or underwrites the performance of the Project or any particular investment return from this PDS.

## Electronic Product Disclosure Statement

This PDS will be issued on the following website: [www.tfsltd.com.au](http://www.tfsltd.com.au). Any person accessing the electronic version of this PDS for the purpose of investing must be an Australian resident and must only access this PDS from within Australia. The Corporations Act prohibits any person passing on to another person the Application Form unless attached to a hard copy of this PDS or accompanied by the complete and unaltered version of this PDS.

## **Environmental Considerations**

The Responsible Entity does not intend to take into account labour standards or any material environmental, social or ethical considerations for the purpose of selecting, retaining or realising an investment in the Project, other than those considerations ordinarily taken into account by an entity operating in the agribusiness sector.

## **Australian Financial Services Licence**

The Responsible Entity has been granted an Australian Financial Services Licence (No. 241192) by the Australian Securities & Investments Commission ('ASIC') which authorises the Responsible Entity to act as responsible entity for the Project as well as certain other managed investment schemes.

## **Photographs**

Unless otherwise stated, the photographs contained in this PDS are for illustrative purposes only. They do not represent, or purport to represent assets of the Responsible Entity or the Project Manager.

# Key Investment Features

- ❖ Indian Sandalwood is one of the world's oldest traded commodities. Its use is entrenched in Indian and other Asian cultures.
- ❖ Traditional demand remains high, while supply continues to diminish to the point where the tree is endangered in its natural environment. As a result, Indian Sandalwood heartwood has increased in price by an average of 23% per annum, compounded for the last 14 years.
- ❖ Auction prices for heartwood in India averaged \$85,300 per tonne in January 2005 with July 2005 auction prices averaging \$93,200 confirming Indian Sandalwood's status as one of the world's most valuable tropical hardwoods.
- ❖ TFS is a wholly owned subsidiary of TFS Corporation Ltd (ABN 97 092 200 854), a public company listed on the Australian Stock Exchange.
- ❖ TFS is a specialist Indian Sandalwood plantation manager and is committed to the long-term development of an Australian grown Indian Sandalwood industry.
- ❖ Your plantation will be on premium land in the Ord River Irrigation Area ('ORIA'), carefully selected for its soil types which provide nutrition, good drainage and pest protection.
- ❖ With the right soil type, tropical climate, natural lack of predators and an abundance of irrigation water, the ORIA provides a proven environment in which to grow Indian Sandalwood.
- ❖ Flexible product options with readily available finance ensure an investment that suits your financial needs.
- ❖ A Pre-Paid investment option where all plantation Establishment, Lease and Management Fees are paid upfront.
- ❖ An Annual investment option where you pay an Establishment Fee, followed by ongoing Lease and Management Fees for the life of the Project.
- ❖ A Deferred investment option where you pay the Establishment Fee and then elect, on an annual basis, for TFS to make ongoing Lease and Management Fee payments on your behalf. In doing so, TFS will receive an increased share of the Gross Proceeds of Sale.
- ❖ A Joint Venture option where you pay the Establishment Fee and nominate a Joint Venturer to share your investment by paying the Pre-Paid or ongoing Lease and Management Fees. That Joint Venturer could be your spouse, your superfund or a non-associated third party.
- ❖ The 2006 Project will be the 10th to be planted by TFS.









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# 1.0 An Overview

## 1.1 Introduction

TFS Properties Ltd ('TFS Properties') invites you to invest in the TFS Sandalwood Project 2006 (the 'Project'). TFS Properties is the issuer of this Product Disclosure Statement ('PDS') and of interests in the Project (called 'Sandalwood Lots' within this PDS).

The Project consists of up to 600 Sandalwood Lots of one half (0.5) of a hectare each.

There is no minimum subscription to the Project.

The different investment options provided by TFS Properties for this investment are more fully described in Section 2.4.

TFS Properties will appoint Tropical Forestry Services Ltd ('TFS') to manage all plantation activities on your behalf. TFS is a company with considerable experience in managing plantations of Indian Sandalwood in the ORIA.

An investor in the Project should be looking for long term investment returns, and should not be anticipating a return before the 13th year after planting which is proposed as the year of the first Harvest. You should be aware that your investment is likely to remain illiquid, with no secondary market available for the sale of your Sandalwood Lots.

We recommend that you seek professional advice from a licensed investment adviser, tax adviser or accountant before investing.

## 1.2 Need help?

If you need help regarding investing generally, we recommend that you speak to a licensed financial adviser. The Australian Securities & Investments Commission ('ASIC') can help you check if your adviser is correctly licensed. The ASIC has a website as well as help lines you can find in your phone book. If you do not have an adviser contact us and we can put you in touch with someone who can help.

If you have any questions about investing you should speak to your adviser. If you have questions about the Project investment particularly, speak to them, call us or visit our website.

## 1.3 About the MIS Agribusiness sector

A Managed Investment Scheme ('MIS') is an investment in a project managed by professional managers with particular skills suited to that project.

This PDS provides information about the TFS Sandalwood Project 2006 managed by TFS Properties as the Responsible Entity. A Responsible Entity is a public company licensed through the ASIC to operate a registered MIS. The Responsible Entity takes full responsibility for operating and managing the MIS, though it is free to appoint managers with specific expertise in certain areas. For example, TFS Properties will appoint TFS as Project Manager of the Project.

The purpose of the Project is to plant and raise Indian Sandalwood trees for harvest and sale as cleaned logs.



## 1.4 About Tropical Forestry Services Ltd

TFS was incorporated in 1997, and commenced planting commercial plantations on behalf of growers prior to 30 June 1999. Since that time it has established over 610 hectares of Indian Sandalwood plantations in the ORIA on behalf of 490 individual growers and companies associated with TFS. By 30 June 2006 a further approximately 200 hectares of Indian Sandalwood will have been planted on behalf of a further 130 growers and Companies associated with TFS. It has the benefit of an experienced group of Directors. For more information on the Directors refer to Section 5.0.

TFS is a wholly-owned subsidiary of TFS Corporation Ltd (ABN 97 092 200 854). TFS Corporation Ltd listed on the Australian Stock Exchange in December 2004.







## 2.0 Project & Financial Information

### 2.1 What are we offering?

The TFS Sandalwood Project 2006 offers you the opportunity to grow your own Indian Sandalwood, a wood that remains in strong demand and is in diminishing supply.

Average Indian Sandalwood auction prices for heartwood in the State of Tamil Nadu have risen from \$5,100 in 1990/1991 to \$93,200 in July 2005. A diminishing supply, coupled with Sandalwood's important role in Indian and other Asian cultures will most likely ensure that demand remains high with continuing upward price pressure.

### 2.2 How does the Project work?

As a Grower you will establish and maintain your own stand of Indian Sandalwood by:

- ❖ Sub-leasing one or more land parcels from the Lessor (TFS Leasing Pty Ltd). Each land parcel is one half (0.5) of a hectare. Your Sandalwood Lot will be identifiable by reference numbers on a plan of the Plantation. This plan will be forwarded to you once your Application Form has been accepted.
- ❖ Engaging TFS Properties (the Responsible Entity) to establish and maintain an Indian Sandalwood plantation on your Sandalwood Lot. TFS Properties will in turn appoint TFS to manage your Sandalwood Lot together with all other Growers' Sandalwood Lots for the Project as one commercially viable plantation. This engagement continues until all of your Indian Sandalwood has been harvested.
- ❖ Engaging TFS to supervise the Harvest of the Indian Sandalwood from your Sandalwood Lot, the processing of the Sandalwood into cleaned



logs and their transport to store. The Harvest is expected to take place during Years 13 to 14 (although this may vary dependent upon TFS' assessment of heartwood and oil yields, though will not extend beyond Year 14). The Grower can make a request of TFS as to the percentage of wood that is to be harvested in each year from Year 13 to Year 14.

- ❖ Engaging TFS Properties to market and sell your Sandalwood for the maximum price obtainable, unless you elect to collect your Sandalwood for your own purposes (refer to Section 4.10).

## 2.3 Investment costs

The costs to participate in the Project are identified below. One Sandalwood Lot covers an area of one half (0.5) of a hectare.

All costs of participation in this Project, including payment dates throughout the Project life, are tabulated in Tables 1, 2, 3a, 3b and 3c on pages 14-19.

### a. Establishment Fee

The Establishment Fee covers costs of seed acquisition and propagation of seedlings, ground preparation, weed control, planting, fertilising, irrigation costs, other plantation requirements and head office costs.

Establishment Fees are as follows:

- ❖ An Initial Sandalwood Lot is \$35,750
- ❖ Each subsequent Sandalwood Lot is \$33,000
- ❖ Both of the above fees are GST inclusive.

Upon executing and returning an Application Form, you acknowledge that the whole of the Establishment Fee is due and payable to the Responsible Entity. However, you may choose one of the following payment options in respect of satisfying the Establishment Fee:

- pay the whole of the Establishment Fee upon Application; or
- pay 20% of the Establishment Fee upon Application and the remainder in instalment(s) within 12 months after Application as agreed by the Responsible Entity (the 'Instalment Option').

The Responsible Entity will monitor the level of Applications received under the Instalment Option and is not obliged to accept all Instalment Option Applications. A limit may be imposed by the Responsible Entity on the number of Applications that will be accepted under the Instalment Option. Further, Applications for the Instalment Option will be reviewed on an Application by Application basis.

If you choose the Instalment Option, you must complete and return the Instalment Option Letter contained in this PDS at Section 12 together with the Application Form to the Responsible Entity. If the Responsible Entity provisionally approves an Instalment Option Application, the Responsible Entity will forward to you an agreement setting out the terms on which the Responsible Entity will allow the Establishment Fee to be satisfied by instalments ('Terms Agreement'). An Instalment Option Application will not be approved unless the Terms Agreement is executed and returned to the Responsible Entity.

The Responsible Entity may charge you interest on overdue amounts at a rate of 10% per annum calculated on a daily basis from the due date until payment is received.

Under the Terms Agreement you charge in favour of the Responsible Entity all your rights, title and interest in your Sandalwood Lot(s) and in the Lease and Management Agreement as security for payment of amounts due under the Terms Agreement and the performance of your duties under the Lease and Management Agreement.

You may elect to pay the balance of the Establishment Fee owing early by notifying the Responsible Entity. No charges for early payment will be incurred.

If you do not pay the required instalments pursuant to the Terms Agreement, then provided the Responsible Entity has given you 14 days written notice to remedy the situation and payment has still not been made, the balance owing under the Terms Agreement will become immediately due and payable. In addition, the Responsible Entity may take legal proceedings to recover the amount, resume all right title and interest which you had in your Sandalwood Lot(s), or do anything which an owner of the Sandalwood Lot(s) is entitled to do under the Lease and Management Agreement.

## **b. Management Fees**

The Management Fees cover ongoing annual costs of the Project, which will include weeding, pruning, irrigation, growth and yield measurements, pest control and management overheads.

If you invest on or prior to 30 June 2006 your Sandalwood Lot will be planted within 12 months of the Commencement Date, and the first annual Management Fee will be invoiced on or about 1 January 2008 with subsequent Management Fees invoiced on 1 January in each following year

during the term of the Project. Management Fees will be levied for services rendered 6 months in arrears and 6 months in advance. Subsequent Management Fees will increase at a fixed rate of 2% per annum throughout the life of the Project.

The annual Management Fee for one Sandalwood Lot is \$4,125 inclusive of GST.

## **c. Lease Fees**

No Lease Fees are payable within the Establishment Period. After the Establishment Period Lease Fees will be charged 6 months in arrears and 6 months in advance on 1 January each year at the same time as the Annual Management Fees.

The Annual Lease Fee for one Sandalwood Lot is \$825 inclusive of GST. Second and subsequent Annual Lease Fees charged will also escalate at a fixed rate of 2% per annum through the life of the Project.

## **d. Harvesting and Processing Fee**

The present day costs of harvesting your Indian Sandalwood, transporting it to store and processing it has been estimated by TFS at about \$8,000 per Sandalwood Lot. It should be noted that this is an estimate, and actual Costs of Harvesting and Processing will be charged on a per Sandalwood Lot basis, whether these are more or less than the estimated figure provided above.

You have the right to elect to take your own Sandalwood timber (see Election to Collect Sandalwood at Section 4.10). In the event that you elect to take your own Sandalwood, you must pay the Costs of Harvesting and Processing prior to being able to collect it.



The current Harvest plan is to remove 20% of the wood in Year 13 and the remaining 80% in Year 14. However the plan may be adjusted as required based on the demand for Sandalwood in that year, price and an assessment of heartwood yields.

**e. Selling and Marketing Fee**

TFS Properties will be paid a Fee of 5.5% of the Gross Proceeds of Sale. The Fee is to pay for Selling and Marketing Services and will be deducted from the Gross Proceeds of Sale prior to distribution if you have elected to have

TFS Properties market and sell your produce. Any additional costs incurred by TFS Properties associated with transportation of the wood to market or any costs associated with any procedure to prepare the cleaned logs to a particular buyer's requirements or the requirements of a particular market will be recoverable by it from you as and when such costs are incurred.





**Table 1**  
**Investment costs for the TFS Sandalwood Project 2006**

**Option One - Annual investment**

A\$ per Sandalwood Lot	TFS Fee	GST	Total
Establishment Fee			
Initial Sandalwood Lot	\$32,500	\$3,250	\$35,750
Each subsequent Sandalwood Lot	\$30,000	\$3,000	\$33,000
Annual Management Fee <sup>1, 2</sup>	\$3,750	\$375	\$4,125
Annual Lease Fee <sup>1, 2</sup>	\$750	\$75	\$825
Harvest Fee (Estimated)	\$8,000	\$800	\$8,800
Selling and Marketing Fee	5%	0.5%	5.5%

**Option Two - Pre-Paid investment**

A\$ per Sandalwood Lot	TFS Fee	GST	Total
Establishment Fee			
Initial Sandalwood Lot	\$32,500	\$3,250	\$35,750
Each subsequent Sandalwood Lot	\$30,000	\$3,000	\$33,000
Pre-Paid Fee	\$30,300	\$3,030	\$33,330
Harvest Fee (Estimated)	\$8,000	\$800	\$8,800
Selling and Marketing Fee	5%	0.5%	5.5%

### Notes to Table 1:

1. Management and Lease Fees will increase at the rate of 2% per annum for each year in which such fees are charged except in respect of the first year.
2. Alternatively, if you take the Annual investment option and you are not indebted to Arwon Finance Pty Ltd (“Arwon Finance”) in respect of your Sandalwood Lot(s), you may defer payment of the Lease and Management Fees specified in Table 1, in any financial year after the end of the Establishment Period by selecting the Deferred option on the annual invoice for Lease and Management Fees in respect of Sandalwood Lots the subject of the Fees, and returning it to TFS Properties within 14 days.

In the event that you make the election to defer, TFS Properties shall be entitled to a percentage of the Gross Proceeds of Sale for the financial year of deferral, in accordance with Table 2 (right).

## Table 2 Costs of Annual Deferral option

Financial Year of Deferral	Percentage of Gross Proceeds of Sale
Years 1 - 6	4% plus GST
Years 7 - 10	3% plus GST
Years 11 - 12	2% plus GST

### f. Insurance

TFS Properties will insure the trees in the nursery and when planted on your Sandalwood Lot against fire for 90% of their value at its cost until the end of the Establishment Period. Thereafter you will be responsible for effecting your own insurance if you wish to take such cover. If you are indebted to Arwon Finance in respect of loans made on account of any fees due under the provisions of the Lease and Management Agreement or this PDS you are required to take out insurance. For more detail about how to take out insurance see Section 7.5.





#### **g. Incentive Fee**

The Responsible Entity will deduct a Fee of 36.3% (including GST) of the amount (if any) by which the actual Net Proceeds of Sale realised exceed the Target Net Proceeds of Sale.

The Target Net Proceeds of Sale is set at \$600,000 per Sandalwood Lot in accordance with the terms of the Lease and Management Agreement. The Target Net Proceeds of Sale is set at \$600,000 per Sandalwood Lot in future dollar terms. This means, in an inflationary environment, \$600,000 is a lower Target Net Proceeds of Sale than what \$600,000 represents today.

#### **h. Registration Fees**

TFS Properties will arrange to lodge a caveat with the Department of Land Information to register interests in your Sandalwood Lots. A caveat fee of approximately \$75 will be invoiced to you at the appropriate time.

#### **i. Cost increases**

Rather than subject your annual costs (annual Lease, Management and Harvesting and Processing Fees) to changes in Australia's Consumer Price Index, TFS Properties has chosen to fix these costs at a rate of increase of 2% per annum, thereby providing certainty for you as to future Fee levels.

Pre-Paid Fees are fixed and do not increase.

## Table 3A: Annual Investment Option (One Sandalwood Lot)

<b>Project Year</b>	0	Est. period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
<b>Financial Year Ending 30 June</b>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>Invoice Date</b>	by 30-Jun-06	1-Jan-07	1-Jan-08	1-Jan-09	1-Jan-10	1-Jan-11	1-Jan-12	1-Jan-13	1-Jan-14	1-Jan-15	1-Jan-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	1-Jan-21	
<b>Fixed Cost Escalation</b>	<b>2%</b>	100%	102%	104%	106%	108%	110%	113%	115%	117%	120%	122%	124%	127%	129%	132%	135%
<b>Grower Costs (GST Inclusive)</b>																	
Establishment Fee	35,750																
Management Fees			4,125	4,208	4,292	4,377	4,465	4,554	4,645	4,738	4,833	4,930	5,028	5,129	-	-	
Lease Fees			825	842	858	875	893	911	929	948	967	986	1,006	1,026	-	-	
<b>Total Costs</b>	<b>35,750</b>		<b>4,950</b>	<b>5,049</b>	<b>5,150</b>	<b>5,253</b>	<b>5,358</b>	<b>5,465</b>	<b>5,575</b>	<b>5,686</b>	<b>5,800</b>	<b>5,916</b>	<b>6,034</b>	<b>6,155</b>	-	-	
GST Rebate	3,250		450	459	468	478	487	497	507	517	527	538	549	560	-	-	
<b>Grower Cashflow (Exclusive of Tax, Finance, Revenue Returns)</b>	<b>32,500</b>		<b>4,500</b>	<b>4,590</b>	<b>4,682</b>	<b>4,775</b>	<b>4,871</b>	<b>4,968</b>	<b>5,068</b>	<b>5,169</b>	<b>5,272</b>	<b>5,378</b>	<b>5,485</b>	<b>5,595</b>	-	-	

### Notes (Annual Investment Option):

- Assumes Grower is resident in Australia for tax purposes and has invested in one Sandalwood Lot.
- Lease and Management Fees have been provided in Table 1 of this PDS in Australian dollars as at 30 June 2006. Fixed price escalation of 2% per annum commences from the end of the Establishment Period.
- There is an annual option to defer Lease and Management Fees (See Table 3B). This option is not available to Growers who are currently indebted to Arwon Finance Pty Ltd.
- Arwon Finance Loans are available to approved investors on Establishment Fees and Years 1-3 Lease and Management Fees.
- Additional costs to the above include (GST inclusive):
  - Selling and Marketing Fee of 5.5% of the Gross Proceeds of Sale.
  - Incentive Fee of 33% (plus GST) of revenues over the Target Net Proceeds of Sale of \$600,000.
  - Harvest and Processing Fee estimated at \$8,000 (plus GST) per Sandalwood Lot.
  - Registration and Caveat Fees and Insurance costs are to be invoiced separately.
- Numbers have been rounded to the nearest whole number.
- It has been assumed that the Establishment Fee is paid on Application and not by instalments pursuant to the Instalment Option

## Table 3B: Annual Deferred Investment Option (One Sandalwood Lot)

Project Year	0	Est. Period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Financial Year Ending 30 June	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Invoice Date	06	1-Jan-07	1-Jan-08	1-Jan-09	1-Jan-10	1-Jan-11	1-Jan-12	1-Jan-13	1-Jan-14	1-Jan-15	1-Jan-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	1-Jan-21	
Fixed Cost Escalation	2%	100%	102%	104%	106%	108%	110%	113%	115%	117%	120%	122%	124%	127%	129%	132%	135%

Annual Deferral Fee	Total 40%		4%	4%	4%	4%	4%	4%	3%	3%	3%	3%	2%	2%	0%	0%
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### EXAMPLE 1: DEFER YEARS 1-5

#### Grower Costs (GST inclusive)

Establishment Fee	35,750															
Management Fees			-	-	-	-	-	4,554	4,645	4,738	4,833	4,930	5,028	5,129	-	-
Lease Fees			-	-	-	-	-	911	929	948	967	986	1,006	1,026	-	-
GST Credit	(3,250)	-	-	-	-	-	-	(497)	(507)	(517)	(527)	(538)	(549)	(560)	-	-
<b>Total Costs</b>	<b>32,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,968</b>	<b>5,068</b>	<b>5,169</b>	<b>5,272</b>	<b>5,378</b>	<b>5,485</b>	<b>5,595</b>	<b>-</b>	<b>-</b>
<b>Total Costs Deferred (GST exclusive)</b>			4,500	4,590	4,682	4,775	4,871									
<b>Percentage of Gross Proceeds of Sale</b>			4%	4%	4%	4%	4%									

### EXAMPLE 2: DEFER YEARS 6-12

#### Grower Costs (GST inclusive)

Establishment Fee	35,750															
Management Fees			4,125	4,208	4,292	4,377	4,465	-	-	-	-	-	-	-	-	-
Lease Fees			825	842	858	875	893	-	-	-	-	-	-	-	-	-
GST Credit	(3,250)	-	(450)	(459)	(468)	(478)	(487)	-	-	-	-	-	-	-	-	-
<b>Total Costs</b>	<b>32,500</b>	<b>-</b>	<b>4,500</b>	<b>4,590</b>	<b>4,682</b>	<b>4,775</b>	<b>4,871</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Costs Deferred (GST exclusive)</b>								4,968	5,068	5,169	5,272	5,378	5,485	5,595		
<b>Percentage of Gross Proceeds of Sale</b>								4%	3%	3%	3%	3%	2%	2%		

### EXAMPLE 3: FULL DEFERRAL

#### Grower Costs (GST inclusive)

Establishment Fee	35,750															
Management Fees			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lease Fees			-	-	-	-	-	-	-	-	-	-	-	-	-	-
GST Credit	(3,250)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Costs</b>	<b>32,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Costs Deferred (GST exclusive)</b>			4,500	4,590	4,682	4,775	4,871	4,968	5,068	5,169	5,272	5,378	5,485	5,595	-	-
<b>Percentage of Gross Proceeds of Sale</b>			4%	4%	4%	4%	4%	4%	3%	3%	3%	3%	2%	2%		

### Notes (Annual Deferred Investment Option):

- Assumes Grower is resident in Australia for tax purposes and has invested in one Sandalwood Lot.
- Lease and Management Fees have been provided in Table 1 of this PDS in Australian dollars as at 30 June 2006. Fixed price escalation of 2% per annum commences from that date.
- This deferral option is not available to Growers who are currently indebted to Arwon Finance Pty Ltd.
- Arwon Finance Loans are available to approved investors on Establishment Fees and Years 1-3 Lease and Management Fees.
- Additional costs to the above include (GST inclusive):
  - Selling and Marketing Fee of 5.5% of the Gross Proceeds of Sale.
  - Incentive Fee of 33% (plus GST) of revenues over the Target Net Proceeds of Sale of \$600,000.
  - Harvest and Processing Fee estimated at \$8,000 (plus GST) per Sandalwood Lot.
  - Registration and Caveat Fees and Insurance costs are to be invoiced separately.
- Numbers have been rounded to the nearest whole number.
- It has been assumed that the Establishment Fee is paid on Application and not by instalments pursuant to the Instalment Option.



## Table 3C: Pre-Paid Investment Option (One Sandalwood Lot)

<b>Project Year</b>	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14		
<b>Financial Year Ending 30 June</b>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>Invoice Date</b>	by 30-Jun-06	1-Jan-07	1-Jan-08	1-Jan-09	1-Jan-10	1-Jan-11	1-Jan-12	1-Jan-13	1-Jan-14	1-Jan-15	1-Jan-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	1-Jan-21	
<b>Fixed Cost Escalation</b>	<b>2%</b>	100%	102.00%	104.0%	106.1%	108.2%	110.4%	112.6%	114.9%	117.2%	119.5%	121.9%	124.3%	126.8%	129.4%	131.9%	134.6%
<b>Grower Costs (GST Inclusive)</b>																	
Establishment Fee	35,750																
Pre-Paid Fee			33,330														
Management Fees																	-
Lease Fees																	-
<b>Total Costs</b>	<b>35,750</b>	<b>33,330</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>GST Rebate</b>	3,250	3,030	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Grower Cashflow (Exclusive of Tax, Finance, Revenue Returns)</b>	<b>32,500</b>	<b>30,300</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

### Notes (Pre-Paid Investment Option):

1. Assumes Grower is resident in Australia for tax purposes and has invested in one Sandalwood Lot.
2. The Pre-Paid Fee is fixed and does not escalate
3. Arwon Finance Loans are available to approved investors on Establishment Fees and Prepaid lease & Management Fees.
4. Additional costs to the above include (GST inclusive):
  - i) Selling and Marketing Fee of 5.5% of the Gross Proceeds of Sale.
  - ii) Incentive Fee of 33% (plus GST) of revenues over the Target Net Proceeds of Sale of \$600,000.
  - iii) Harvest and Processing Fee estimated at \$8,000 (plus GST) per Sandalwood Lot.
  - iv) Registration and Caveat Fees and Insurance costs are to be invoiced separately.
5. Numbers have been rounded to the nearest whole number.
6. It has been assumed that the Establishment Fee is paid on Application and not by instalments pursuant to the Instalment Option



## 2.4 Investment options

### a. Annual

After payment of the Establishment Fee, you pay ongoing annual Lease and annual Management Fees through the life of the Project. These ongoing Lease and Management Fees should be tax deductible when incurred.

### b. Annual Deferrable investment

You pay the Establishment Fee, but can elect to not pay any further Lease and Management Fees. That decision can only be made if at the time you are not indebted to Arwon Finance Pty Ltd in respect of the Sandalwood Lot the subject of the Fees.

In making the decision not to pay ongoing Lease and Management Fees, you are effectively requesting TFS Properties to make these payments on your behalf. In exchange for making these payments, TFS Properties will receive an additional share of the Gross Proceeds of Sale at Harvest. That additional share will range from 4% to 2% plus GST depending on the financial year in which the election is made. See Table 2 on page 15 for the percentages of Gross Proceeds of Sale which TFS Properties will receive in respect to an election to defer payment of Fees in any particular financial year.

In the unlikely event of total destruction of your Sandalwood Lot (refer to Section 4.7), and you have deferred part or all of your Lease and Management Fees you will be liable to pay 55% of all annual Lease and Management Fees, for all years prior to the total destruction event, that would otherwise have been paid if you had taken the Annual investment option.

### c. Pre-Paid

You pay the Establishment Fee with the Application. All annual Lease and Management Fees to Year 12 are then paid in one instalment, to be invoiced on 1 January in the financial year following the financial year in which the Sandalwood Lot is planted. The Pre-Paid investment comprises the Establishment Fee of \$35750 and the Pre-Paid component of \$33,330. You will be eligible to claim the Establishment Fee as a tax deduction in the investment year, followed by ongoing annual tax deductions of \$3,330 over the following 10 years (where you are not registered for GST, refer to Section 6.4).

The first Harvest is anticipated in Year 13. Under the Pre-Paid option you pay Lease and Management Fees to Year 12.

### d. Joint Venture Growers - Annual and Pre-Paid

This feature allows you to share your investment with a third party, with a decision to share to be nominated upfront on the Joint Venture Growers' Application Form attached to this PDS.

You may participate in the Project in a joint venture with another party. At the time of Application you ('Initial Grower') may split the investment with another party ('Secondary Grower') by both of you completing the Joint Venture Growers' Application Form at Section 11. The arrangement will operate as a joint venture in that you take responsibility for the Establishment Fee component of the investment, whilst the other party is responsible for the Pre-Paid Fee in respect of a Pre-Paid investment option or the Annual Fees in respect of the Annual investment option.

You will both be entitled to the Net Proceeds of Sale and be responsible for Fees payable to the Manager (such as the Incentive Fee) divided between you on a 50%:50% basis.

TFS will split the Net Proceeds of Sale on a 50%:50% basis and pay these proceeds directly to both you and the Secondary Grower.

## 2.5 Availability of Finance

Arwon Finance Pty Ltd, a wholly owned subsidiary of TFS Corporation Ltd, may make loan funds available to you if your application for a loan is approved. All loans are on a full recourse basis.

A summary of the key terms and conditions of loans available for this Project follow.

### Lender:

Arwon Finance Pty Ltd, a wholly owned subsidiary of TFS Corporation Ltd.

### Availability:

To approved investors in the Project, loans are available on the Establishment Fee and Years' 1 - 3 Lease and Management Fees, or on the Pre-Paid investment.



### Deposit:

A minimum 20% deposit will normally be required, except where you have fully paid Establishment Fees as part of the Pre-Paid investment.

### Term:

Flexible terms are available to suit your requirements on loans of up to 10 years.

### Repayments:

Principal and interest repayable over term of advance.

If you elect to finance Years' 1, 2 and 3 Lease and Management Fees, loans will be drawn down and payments will commence when these Lease and Management Fees become due and payable.

### Interest Rate:

Interest rates will be based on the bill rate, as provided daily in the Interest Rate section of The Australian Financial Review, plus a margin of up to 6%. Floating interest rates will be adjusted on the 1st day of each quarter in accordance with that reference rate.

### Application Fee:

\$250 per Application, to be added to the opening loan balance.

### Stamp Duty:

An invoice relating to stamp duty payable on this investment will be issued to you when your loan deeds have been assessed by the Office of State Revenue.

### Security:

Mortgage over Growers' Sandalwood Lot(s), and trees growing thereon.

### Insurance:

You will be required to insure and keep insured your Sandalwood trees to their full insurable value until all funds advanced and interest have been repaid.

Arwon Finance will respond to any Application within two business days.

A finance application for Arwon Finance is available from TFS Properties.

## 2.6 Investment returns

### a. General assumptions

Best Estimate

- ❖ The existing competitive or regulatory environments of TFS Properties' business will not change substantially;
- ❖ There are no material beneficial or adverse effects arising from the actions of competitors;
- ❖ There is no material amendment to any material agreement relating to the Responsible Entity's business; and

- ❖ There are no material changes in industrial, political or economic conditions with respect to the Sandalwood and forestry industries and the Australian economy.

## **b. Specific yield assumptions**

### Best Estimate

- ❖ There will be approximately 278 Sandalwood trees planted per Sandalwood Lot. This should result in at least 222 Sandalwood trees per Sandalwood Lot being available for Harvest which allows for a survival rate of at least 80%.

- ❖ The total production of heartwood per Sandalwood tree to be harvested is estimated at 25 kgs in year 13 and 27.5 kg in year 14. Assuming 20% is harvested in year 13 and 80% in year 14 the consequent average heartwood production per Sandalwood Lot should be 5,994 kgs.
- ❖ It is currently planned to Harvest the Sandalwood trees, commencing in Project Year 13 (20% harvested), with the remainder harvested in Project Year 14 (80%) .

More information about yield and Harvest assumptions is contained in the Expert Forester's Report at Section 8.1.







### c. Other important assumptions

#### i. Price

Mr. Anantha Padmanabha, a Forestry and Sandalwood Marketing Expert from Bangalore who has focused on the Indian Sandalwood tree, has written an Expert Marketing Report for inclusion in this PDS. The information contained below is found in more detail in that Report at Section 8.2.

Heartwood was sold at the January and July 2005 auctions as conducted by the State of Tamil Nadu Forestry Department (India) at an average price of approximately \$85,300 and \$93,200 per tonne respectively.

- ❖ The wood currently sold at the Tamil Nadu auction is of a high quality, tending to contain on average 4.0% to 5.5% oil. While it is possible that wood grown in plantation conditions might achieve this oil content, it is more likely that a lower average figure of perhaps 3.15% oil content may be achieved. Tests of 14 year old Sandalwood trees owned by the Forest Products Commission(a Government Instrumentality) from 40 samples obtained in December 2004 by TFS showed an average oil yield from the heartwood of 3.15%.(see the Expert Foresters' Report at Section 8.1).
- ❖ The wood price is affected by the oil content, with wood of a higher oil content being more valuable. It is therefore possible that the plantation heartwood may trade at a discount to the wood sold at auction, commensurate with the possible lower oil content. As the Expert Forester has indicated in his report, heartwood from the Project may have an oil content of around 3.15%. This represents about 30% to 35% less than the oil content of the heartwood sold at the Indian Auctions in Tamil Nadu which contain 4.0% to 5.5%. As confirmed in the Expert Marketing Report at Section 8.2 the price of heartwood will be affected by both the colour and the oil content which in turn are



interrelated. As the heartwood from the Project may have approximately 30% to 35% less oil content than Indian grown Sandalwood (ie 3.15% as opposed to 4.0% to 5.5%), it is reasonable to assume that the heartwood from the Project if sold at auction may be discounted in price in the region of 30% to 35%.

Potential investors should note that the Project's life will be approximately 15 years including the Establishment Period, and that the price of cleaned logs will be affected by market fluctuations in that time. Forward projections about the price of cleaned logs at the estimated time of Harvest have not been included because of uncertainties associated with accurately forecasting the price into the future.

Mr. Padmanabha has indicated in his Report (Section 8.2) that he anticipates ongoing price increases for heartwood of at least 5% per annum for the life of the Project.

## ii. Harvesting and Processing

The present day costs of harvesting, transporting to store and processing the Indian Sandalwood are estimated by TFS Properties to be about \$8,000 per Sandalwood Lot.

The Costs of Harvesting and Processing provided are an estimate. Actual Costs of Harvesting and Processing will be deducted from the Gross Proceeds of Sale prior to distribution to you.

## iii. Exchange Rate

The Tamil Nadu auctions are conducted in Indian Rupee. It is not reasonable to forecast exchange rate fluctuations between the Australian dollar and the Indian Rupee. A Grower should, however, be aware that exchange rate fluctuations can either positively or negatively affect the Gross Proceeds of Sale from a Sandalwood Lot.

## iv. Cost increases

Annual Lease and Management Fees will be indexed at a fixed rate of 2% per annum to provide certainty to you as to future cash requirements.

## v. Recovery of GST

You are deemed by the ATO to be carrying on a business, and as such are eligible to register for GST purposes. Registering for GST purposes will enable you to reclaim any GST paid in relation to the Project within the year that it is paid.

## d. Risks

An investment in this Project is long term, and may be affected adversely by unforeseen events, or events beyond the control of the Responsible Entity.

Many of the risks identified below are not risks peculiar to this Project, and are consistent with risks to be considered in other investment classes and certainly within the agribusiness sector.

The risks of the Project include, but are not limited to the following.

- ❖ The Plantation will conclude in the 14th year after planting. Over that period political, economic or social events may occur which have a significant impact on the investment.
- ❖ New technologies may be introduced which allow synthesis of an exact substitute of Indian Sandalwood oil which may in turn depress the price for the natural product.
- ❖ The proceeds of Harvest in Australian dollars may be reduced due to unfavourable exchange rate variations at the time of Harvest.
- ❖ Risks associated with primary production in general, such as pests, diseases and natural disasters such as storms, fires and cyclones.
- ❖ The overall forecast yield is reduced due to higher than anticipated fatality rates, or lower than anticipated heartwood yields.
- ❖ The oil yield is lower than anticipated, which may reduce the value of the heartwood of the Sandalwood.
- ❖ Higher costs than have been estimated in relation to harvesting, transporting and processing.
- ❖ The oil quality is lower than expected reducing the value of the heartwood timber.

- ❖ There are only a few small Sandalwood plantations that have grown to maturity in Australia. These are owned by Western Australia's Forest Products Commission in the ORIA. Consequently, this is a pioneering project for commercial Sandalwood plantation forestry and may be subject to agricultural risks that are not apparent at the date of this PDS.
- ❖ Other usual risks of agricultural projects, more detail for which is contained in the Expert Forester's Report at Section 8.1.

#### e. Return assumptions

Return assumptions in respect of a project that will continue for 14 years after planting are subject to significant uncertainties, many of which are outside the control of the Responsible Entity and its Directors. You should make your own assessment of the Project based on the information set out in this PDS and based upon advice from your financial adviser.









## 3.0 About Sandalwood

There is a significant amount of information about Sandalwood contained in the Expert Forester's and Expert Marketing Reports (Sections 8.1 and 8.2 respectively). These reports should be read in conjunction with the following information.

### 3.1 The market

There is a strong international market for Sandalwood. Sandalwood and Sandalwood oil is currently imported by the Middle East, Japan, Taiwan, Hong Kong, Korea, Germany, Sweden, Switzerland, France, Australia, the UK and the USA. It is anticipated that with the increasing affluence of China, that country could once again become a major importer of Sandalwood. Further, the dwindling supplies of wood from India are likely to see that country emerge as a significant importer of wood.

### 3.2 Supply

The historical sources of supply of Sandalwood have been India, Indonesia and Western Australia, with India accounting for over 75% of total annual world production. Supply from Indonesia has virtually ceased while Western Australia's *Santalum spicatum* wood supply remains constant at about 2,000 tonnes per annum. It should be noted that Indian Sandalwood genus *Santalum album* and Australian Sandalwood genus *Santalum spicatum* are quite different in their oil composition, fragrance, growth regime, climatic environment and price. The oil composition of *Santalum spicatum* is, from a chemical point of view, quite different and whereas Indian Sandalwood will grow to harvest in 13 or 14 years under irrigation and is a tropical hardwood, Australian Sandalwood is an arid climate slow growing tree that can take up to 30 years to mature. Australian Sandalwood sells for around \$12,000 to \$15,000 per tonne on average whereas the heartwood of Indian Sandalwood sells on average for around \$80,000 to \$90,000 per tonne.

Indian Sandalwood supply has diminished over recent decades and while relatively constant at about 5,000 tonnes per annum is expected to diminish further once wood stockpiled by the State of Tamil Nadu Forestry Department (India) is sold.

It is anticipated that traditional supply sources of Indian Sandalwood will be significantly lower than current levels by the time the plantation wood from Kununurra is ready for the market.

### 3.3 Demand

Sandalwood has been in demand for over 2,000 years. The demand for the wood is not expected to disappear. The market, out of necessity, will look for alternatives, but due to the difficulties in replicating the natural oil, these alternatives are not expected to replace the true Sandalwood products.

### 3.4 Price

The world market price for Indian Sandalwood fluctuates depending on the source and quality of the wood.

As at July 2005, the average market price for the heartwood of Indian Sandalwood in India was approximately \$93,200 per tonne (\$93.2 per kg). The average price was determined over 8 separate grades of heartwood at the Government auctions in the State of Tamil Nadu conducted on the 3rd, 4th and 5th of July 2005.

## 4.0 Plantation Management

TFS will manage the Project as a contractor for TFS Properties.

TFS:

- ❖ is an experienced manager of Indian Sandalwood plantations;
- ❖ currently owns and manages Sandalwood plantations in the ORIA covering a total area of over 610 hectares; and
- ❖ has qualified professional staff with experience in all relevant disciplines.

### 4.1 Plantation management team

The plantation management team comprises persons experienced in forestry, with significant experience in Indian Sandalwood and horticultural issues in Kununurra. More particulars of the plantation management team are contained below.

#### **Peter Kimber** Expert Forester

Peter has specialised his career in tropical tree plantations, in particular the establishment and management of irrigated plantations of Indian Sandalwood in the ORIA. He has been involved in the research and development of plantation techniques for the successful culture of Indian Sandalwood since the 1980's. He is widely recognised as one of the foremost experts on Indian Sandalwood in the world.

#### **Chris Done** Expert Forester / Operations Manager

Chris has worked for the WA Department of Conservation and Land Management (CALM) since 1985, as the Regional Manager of the Kimberley Region in charge of all National Parks, Nature Reserves and Marine Reserves. Alongside Peter, Chris was involved with planting and maintaining the original Indian Sandalwood trial plots in the ORIA. Chris joined TFS as Operations Manager in October 2005.

#### **Brett Blunden** Manager Land and Plantation Maintenance

Brett has been with TFS since 2001, having commenced work in the Kununurra region in 1996. He brings invaluable regional agricultural experience.

#### **Terry Gascoine** Manager Nursery and Plantation Development

Terry was new to TFS in 2004, having previously been employed by Plantation Management Services where he was responsible for the cultivation and raising of Indian Sandalwood seedlings. Terry has been working in horticulture since his move to Kununurra in 1995.

#### **Matt Barnes** Manager Research and New Projects

Matt has recently joined TFS. He brings a wealth of experience in tropical agriculture and has instituted a number of new programs designed to increase survival rates and reduce the need for ongoing maintenance of the Sandalwood Plantations.

### 4.2 Growing considerations

In order to grow Indian Sandalwood successfully in Australia the following growing conditions must be met:

- ❖ a tropical climate;
- ❖ regular watering;
- ❖ free-draining soils;
- ❖ land which has a flat to undulating topography and is not subject to water-logging; and
- ❖ freedom from termite attack.



The land on which the Plantation will be established possesses all of the above characteristics. Its soil type is described as heavy cracking clay which is generally free-draining and free of termite attack. The land is flat and has access to abundant irrigation water resources from Lake Argyle via the Ord River. This land has previously been farmed and requires no clearing.

### 4.3 Where will the plantation be located?

Approximately 50 hectares of the Project will be located adjacent to the existing Plantation of TFS Properties at Packsaddle Plain. The remaining 250 hectares of the Project will be located on 517 hectares of land recently purchased by TFS Properties in the ORIA at Ivanhoe Plain.







#### **4.4 Why the Ord River Irrigation Area?**

Section 4.2 details the requirements for growing Sandalwood in plantations. The ORIA uniquely satisfies all of these requirements.

It is ideal because of the abundance of readily available water for irrigation purposes and the fact that its soils are fertile, free draining and of the heavy cracking type which deters attack from the Giant termite (*Mastotermes darwiniensis*).

#### **4.5 Planting**

The Sandalwood tree is a semi-parasitic tree which needs host trees to survive. The Sandalwood tree's roots penetrate the roots of the host to draw nutrients, water and some metabolites. Such is the voracity of the Sandalwood that a succession of hosts is needed for its successful cultivation.

#### **4.6 Ongoing maintenance**

The Plantation will be maintained in accordance with a Management Plan. Annual maintenance will include weeding and pruning, nutrient analysis to determine fertiliser requirements, fire control management, inventory measurement and regular reporting. The Plantation will also be monitored for pests.

#### **4.7 Damage to the plantation or trees on Sandalwood Lots**

If the trees on a Sandalwood Lot are wholly destroyed, your interest in the Sandalwood Lot will cease, and the requirement to pay ongoing annual Management Fees and annual Lease Fees will also cease in the year following the total destruction.

If the trees on a Sandalwood Lot are partially destroyed, your interest in the Sandalwood Lot will be reduced in proportion to the area that has been

destroyed. The Fees will also be reduced proportionally (although the Lease Fees will not vary). The proportion or area destroyed will be determined by an independent expert appointed by TFS Properties.

Where a total destruction event has occurred to you as a Deferred Grower, you will be liable to pay to TFS Properties, 55% of all annual Lease and Management Fees for years prior to the total destruction event that would have been paid had you been an Annual Grower, rather than a Deferred Grower. TFS may be able to arrange insurance annually on your behalf, to cover this event.

## 4.8 Harvesting

The heartwood is contained within the larger branches, log, roots and butt of the Sandalwood tree. The butt and roots contain up to one-third of the heartwood and as a result the tree is pulled rather than felled. This is achieved by attaching a light chain to the tree which is then pulled out of the ground by a tractor or a machine with lifting hydraulics.

TFS Properties proposes that Harvest of the Sandalwood will commence in Year 13 and conclude in Year 14. Trees will be selected for Harvest on an individual basis. The precise timing of the Harvest will be determined by forestry management criteria, the aim being to maximise the revenue generated by the Project. The Harvest will be concluded by Year 14. Returns to Non-Electing Growers will be paid progressively as Gross Proceeds of Sale are received after each Harvest.

## 4.9 Marketing and sale

At the time of Harvest, TFS Properties will determine the most profitable and appropriate markets for the product. It is expected that the wood will be sold as cleaned logs. The sapwood left over after extraction of the heartwood also has a number of important uses including the making of joss and incense sticks, (refer to the Expert Marketing Report at section 8.2) Any proceeds of

sale from the wood will be distributed to you after deduction of the Costs of Harvesting and Processing, and any additional costs associated with the Selling and Marketing Fee.

## 4.10 Election to collect Sandalwood

You may elect on the Application Form to collect your Sandalwood from your Sandalwood Lot. If this is the case, you will not benefit from the economies of scale which may be achieved by pooling the Sandalwood from the whole of the Plantation and selling it on a collective basis with other Growers' Sandalwood.

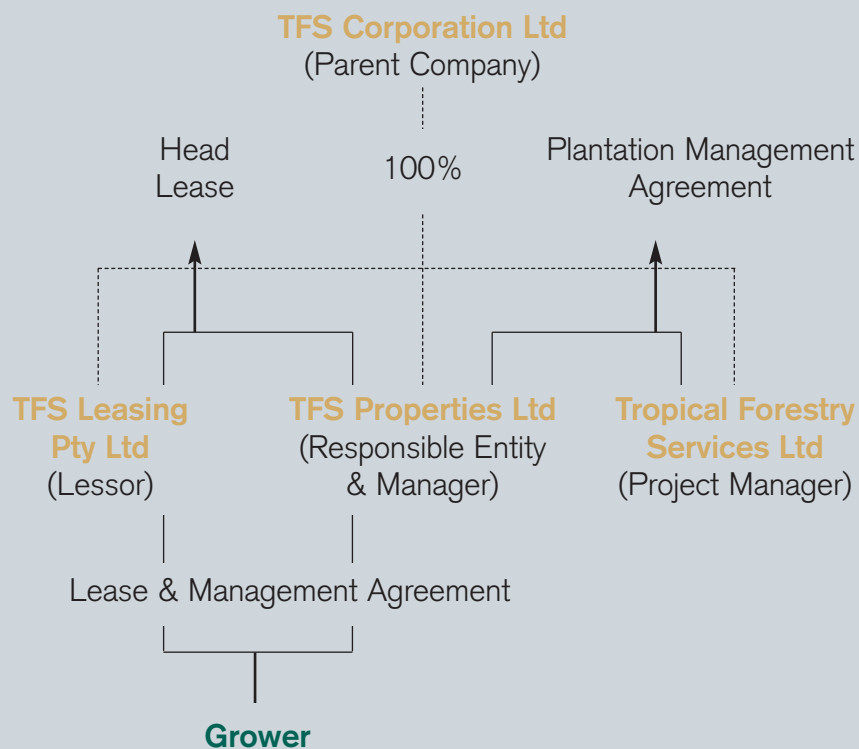
When you elect to collect your own Sandalwood:

- ❖ TFS Properties will advise you in writing of the time and place at which it can be collected;
- ❖ you will be required to pay your share of the Costs of Harvesting and Processing on (or before) collecting your Sandalwood;
- ❖ you will be responsible for your own transport and marketing costs;
- ❖ you will be required to pay any outstanding Fees including Lease and Management Fees whether unpaid or deferred; and
- ❖ you will also be required to pay TFS Properties' estimate of your share of the Incentive Fee (if applicable), subject to adjustment on completion of Harvest, when the actual amount of the Fees payable has been determined.



# 5.0 Corporate Management

## 5.1 Project structure



## 5.2 Directors

The Directors of TFS Corporation Ltd, TFS Leasing Pty Ltd, TFS Properties Ltd and Tropical Forestry Services Ltd are persons with strong corporate, legal, and business skills, each of whom are highly experienced in company management.

The Directors, as at the date of this PDS, are:

### Frank Cullity Wilson Chairman



Mr Wilson is a founding principal and the Managing Partner of the legal firm Wilson & Atkinson, which specialises in taxation, property and commercial law. Mr Wilson is an experienced businessman, who is a director of a number of private and public companies, and who has a long standing involvement in the forestry industry as an adviser to various listed public and large private forestry companies.

### Ronald Lionel Eacott Non-Executive Director



Mr Eacott is the Managing Director of Expo Document Copy Centre (WA) Pty Ltd, a leading company in the reprographic industry. Mr Eacott is highly experienced in company management having been the State Manager of Union Steel (seven years) and national Manager (New Zealand) for Elders Pastoral for a period of three years. Mr Eacott was previously the State Manager (WA) of Boral Steel and later Boral Cyclone over a period of 18 years. Mr Eacott is actively involved in the community.

**Stephen Lee Atkinson**  
**Non-Executive Director**



Mr Atkinson is a founding principal and a former partner of the legal firm Wilson & Atkinson. He specialised in the corporate and compliance aspects of Managed Investment Schemes.

**Blake William Myles**  
**Non-Executive Director**



Since 1987 Mr Myles has been an investment adviser in Sydney, London, New York and Perth. Mr Myles has lived in Perth since August 2000 where he works as a Senior Investment Adviser at Bell Potter Securities.

Mr Myles has wide experience in finance and capital markets both here and in overseas markets. He was actively involved in the float of TFS Corporation Ltd on the ASX in December 2004.







### **5.3 Compliance Committee**

TFS Properties has established a Compliance Committee as required by the Corporations Act. The responsibilities of the Compliance Committee are to monitor to what extent the Responsible Entity complies with the Compliance Plan and to report any breaches to the Directors of the Responsible Entity and in certain cases the ASIC.

The Compliance Committee comprises two external members and one representative of the Responsible Entity.

### **5.4 Compliance Plan**

TFS Properties has prepared a Compliance Plan as required by the Corporations Act to ensure that it meets its obligations as a Responsible Entity and that the rights of Growers are protected. The Compliance Plan identifies the obligations under the Corporations Act, the Constitution and the Lease and Management Agreement, and identifies risks of non-compliance and establishes measures designed to address these risks.

### **5.5 Expert Forester**

TFS Properties has appointed an Expert Forester, Mr Peter Kimber of Kimber Environment Services. The Expert Forester's report appears at Section 8.1.



## 5.6 Management Plan

The Plantation will be maintained in accordance with a Management Plan. The Management Plan outlines the procedures to be followed to ensure that the Project is carried out in accordance with Western Australia's Code of Practice for Timber Plantations and in a manner designed to both mitigate the Project risks and maximise the growth and yield of the Plantation.

The Management Plan is available for review at the offices of TFS Properties.

## 5.7 Shareholdings of the Directors of TFS Corporation Ltd

The following relevant interests are disclosed:

- ❖ F C Wilson, who is a Director of the Responsible Entity, has a beneficial interest in 37,748,323 shares, being 23.85% of the issued capital of TFS Corporation Ltd.
- ❖ S L Atkinson, who is a Director of the Responsible Entity, has a beneficial interest in 9,166,667 shares, being 5.81% of the issued capital of TFS Corporation Ltd.
- ❖ R L Eacott, who is a Director of the Responsible Entity, has a beneficial interest in 4,600,000 shares, being 2.91% of the issued capital of TFS Corporation Ltd.
- ❖ B W Myles, who is a Director of the Responsible Entity, has a beneficial interest in 500,000 shares, being 0.3% of the issued capital of TFS Corporation Ltd.

## 5.8 Interests of Directors of Responsible Entity

The Responsible Entity is a wholly owned subsidiary of TFS Corporation Ltd and therefore Directors do not hold any shares in the Responsible Entity directly. Directors' interests in TFS Corporation Ltd are disclosed in Section 5.7. The Directors of the Responsible Entity may receive Director's Fees from the Responsible Entity's own funds.

## 5.9 Loans

Arwon Finance, a wholly owned subsidiary of TFS Corporation Ltd, may make loan funds available to approved Applicants in the Project. All loans are on a full recourse basis. More information on the availability of finance through Arwon Finance can be found at Section 2.5.

## 5.10 No guarantee

Neither the Responsible Entity nor any Director guarantees the amount or timing of any tax deduction or return. The Directors and the Responsible Entity advise that any policies of the Directors of the Responsible Entity may be subject to change in the event of any economic, financial or other changes subject to the limitation expressly provided in the Constitution.

## 5.11 Commission

TFS Properties may pay up to 7% of all Establishment Fees, Lease and Management Fees received for Applications for Sandalwood Lots as commission to eligible financial intermediaries who procure Applications for Sandalwood Lots in accordance with the Corporations Act. In addition, TFS Properties may compensate financial services licensees that have provided assistance of an administrative or marketing nature for the cost of their support.

The amounts payable will be subject to agreement between TFS Properties and those financial intermediaries, and will be paid by TFS Properties from the funds that it receives as Fees under this PDS. Information concerning any payments which may be made to your adviser should be disclosed by your adviser.

## 5.12 Formation and issue expenses

All expenses of the issue, inclusive of all legal, accounting and experts' fees, together with all commissions detailed in this PDS and advertising will be paid by TFS Properties from its own funds.

## 5.13 Particulars of interests

TFS Properties will be paid Fees, costs and other disbursements as described at Section 2.3.

- ❖ Wilson & Atkinson, a legal firm in which Frank Wilson is a principal, is entitled to be paid professional fees in respect of legal services provided to the Responsible Entity in relation to the preparation and submission to the Australian Taxation Office for the Product Ruling, and associated tax advice on this PDS. These professional fees will amount to approximately \$22,000.
- ❖ Kimber Environment Services has prepared an Expert Forester's Report for inclusion in this PDS. The amount which Kimber Environment Services will be paid for this work will not exceed \$5,000.
- ❖ Anantha Padmanabha has prepared an Expert Marketing Report for inclusion in this PDS. The amount which he will receive for this work will not exceed \$7,500.
- ❖ Steinepreis Paganin, as solicitors to TFS Properties, is entitled to be paid professional fees in respect of legal services provided to the Responsible Entity relating to this PDS. These fees are estimated to be \$6,250.



## 5.14 Consents

Kimber Environment Services has given, and not before issue of this PDS withdrawn, its consent to the issue of this PDS with the Expert Forester's Report and other statements attributed to it being included in this PDS in the form and context in which they are included.

Anantha Padmanabha has given, and not before issue of this PDS withdrawn, his consent to the issue of the PDS with the Expert Marketing Report and other statements attributed to him included in this PDS in the form and context in which they are included.

Steinepreis Paganin have given and not withdrawn their consent before the issue of this PDS for the inclusion of the Summary of Material Agreements contained at Section 9 of this PDS and any other statement attributable to them in the form and context in which they are included.

True copies (verified by a statement in writing) of the consents and of every material contract referred to in this PDS are available for inspection without charge at the registered office of TFS Properties.







## 6.0 Taxation Considerations

### 6.1 Tax deductions

A Product Ruling would ensure that you are entitled to an allowable deduction for all Establishment Fees, Lease and Management Fees and interest (if any) when incurred (non STS taxpayers). If you elect to pre-pay your Lease and Management Fees you should be entitled to an allowable deduction of your Fees on a pro rata or straight line basis over 10 years (ie. 1/10 per year).

If your Application is accepted before 30 June you are entitled to claim a tax deduction for the Establishment Fee in the financial year in which the Application was accepted where the Establishment Services are completed within 12 months of acceptance.

If your Application is accepted after 30 June you are entitled to claim a tax deduction for the Establishment Fee in the financial year in which the Application was accepted where the Establishment Services are completed within 12 months of acceptance.

You may derive assessable income from the Project being your share of the Net Proceeds of Sale less any GST payable on those proceeds.

### 6.2 Product Ruling

The Responsible Entity has lodged an application with the Commissioner of Taxation for a Product Ruling for this Project. As at the date of issue of this Product Disclosure Statement the Product Ruling has not been issued by the Commissioner of Taxation. The Responsible Entity believes that a Product Ruling should be issued by the Australian Taxation Office. Upon the issue of the Product Ruling, the following provisions would apply.

A Product Ruling is a binding public ruling under the Taxation Administration Act 1953, in relation to income tax and fringe benefits tax law. A Product

Ruling provides certainty for investors by confirming that the tax benefits set out in the Product Ruling are available, provided that the arrangement is carried out in accordance with the information provided to the ATO by the persons described in the Product Ruling as providing information.

The Product Ruling confirms that the relevant provisions of Part IVA of the Income Tax Assessment Act 1936 will not be applied to cancel a tax benefit obtained under a tax law covered in the Ruling. In addition, the Product Ruling evidences the conditional exercise of the Commissioner of Taxation's discretion, contained in Division 35 of the Income Tax Assessment Act 1997 which will ensure that the provisions limiting the deductibility of losses from non-commercial business activities will not be applied to an individual Grower, provided the Project is carried on in the manner described in the Arrangement section of the Product Ruling.

A Product Ruling would not mean that the ATO sanctions this investment or gives any assurance that the production of Sandalwood is commercially viable. You should obtain individual tax and investment advice before deciding to invest in the Project.

It should also be noted that a Product Ruling does not apply to those Growers who elect to collect their own collectable produce as Electing Growers.

## 6.3 Income tax

Capital Gains and Income Tax may be payable on a disposal of a Sandalwood Lot and you should consult with your taxation advisers on this issue.

## 6.4 Goods and Services Tax

The Goods and Services Tax ('GST') is a broad based indirect tax. It is a tax that is charged on the supply of goods and services in Australia and on imported goods. The GST is charged at 10%.

Taxable Supplies in the Project include the sub-lease from the Lessor and the services provided by TFS Properties in accordance with the Lease and Management Agreement. This means that you will be required to pay 10% GST on payment of all services (in accordance with the Lease and Management Agreement).

Where you are registered with an Australian Business Number ('ABN') for GST purposes, you should be entitled to claim an input tax credit equal to the GST that you have paid. You may register for an ABN even if your annual turnover is or would be less than the \$50,000 registration threshold. The main implication of you not registering is that you will have no entitlement to an input tax credit for GST paid.

However as the GST is an expense incurred in deriving assessable income, any GST incurred by you as an unregistered Grower will be an allowable deduction from your assessable income in the year in which it is incurred.

The Lease and Management Agreement provides that any GST which is payable in respect of the Lease, the Fees or any other payment or service which is provided pursuant to the terms of the Lease and Management Agreement shall be paid by you.

You should obtain your own independent professional advice as to the effects of GST with respect to an investment made under this PDS.



## 6.5 Non-commercial losses

Division 35 of the Income Tax Assessment Act 1997 contains provisions that affect the deductibility of losses from what are described as 'non-commercial business activities'. These provisions restrict the extent to which an individual can offset losses from a non-commercial activity against other income. If the provisions apply, losses from a relevant non-commercial business activity will be carried forward and will be deductible against future income from that activity only. These losses will only be allowed as deductions against income from other activities if one of four (4) tests is satisfied or the Commissioner of Taxation favourably exercises his discretion to allow the deduction.

Only one of the tests listed below needs to be passed to enable an individual's loss from a business activity to be deducted against the individual's other assessable income:

- ❖ assessable income from a business activity is at least \$20,000;
- ❖ the business activity produced profit (for tax purposes) in at least 3 out of the last 5 years including the current year;
- ❖ value of real property used in carrying on a business is at least \$500,000; or
- ❖ value of other assets used in carrying on a business is at least \$100,000.

None of these tests can be satisfied by you either in the year of investment or in the period of the first three years of the Project. However, s 35-10 ITAA97 provides that the relevant provisions deferring deductibility will not apply in certain circumstances. For you, the most relevant circumstance is the

discretion given to the Commissioner in s 35-55 ITAA97 to be exercised essentially where there is an objective expectation that within a period of time that is commercially viable in the context of the industry concerned, 'assessable income will be produced.'

The Product Rulings have been granted pursuant to the conditional exercise of the Commissioner of Taxation's discretion, contained in Division 35 of the Income Tax Assessment Act 1997. The effect of its issue is that the provisions limiting the deductibility of losses from non-commercial business activities will not be applied to you as an individual Grower, provided the Project is carried on in the manner described in the Arrangement section of the Product Rulings.







## 7.0 Other Important Information

### 7.1 Number of interests offered

The number of Sandalwood Lots that are available for subscription is 600.

### 7.2 Minimum subscription

There is no minimum amount that must be raised under this PDS.

### 7.3 Buy back provision

You have no right to require that your Sandalwood Lot(s) be repurchased by the Responsible Entity or any other person. If you suffer hardship you can request hardship relief (refer to Section 7.6). In entering into the investment you should be aware that there is currently no existing secondary market for Sandalwood Lots.

### 7.4 Transfer of interests

If you wish to transfer your Sandalwood Lot and ongoing obligations in its entirety to another party you should contact TFS Properties, as the consent of TFS Properties is required. The transfer is subject to the requirements of the Corporations Act, the Constitution and the Lease and Management Agreement.

Further details about transferring Sandalwood Lots are set out in the Constitution and Lease and Management Agreement.



## 7.5 Insurance

TFS Properties will insure the trees in the nursery and when planted on your Sandalwood Lot against fire for 90% of their full value at its cost until the end of the Establishment Period. In the event of a loss during the currency of this insurance, TFS Properties will make a claim and use any insurance proceeds to replace or replant the trees.

TFS Properties have investigated the availability of insurance for the trees on your Sandalwood Lot, and if requested to do so by you, can put you in contact with a licensed Insurance Broker who will be able to effect insurance on your behalf. TFS Properties or the licensed Insurance Broker will issue you with an annual reminder not later than 1 month prior to the expiry of any term of the insurance effected by you on the trees on your Sandalwood Lot or Lots.

The proceeds of any successful claims made under the policy of insurance will be paid to you, after deducting or paying all costs, fees, expenses and any other money payable by you to TFS Properties or to any other person.

In addition, TFS Properties will take out public liability insurance for an amount of not less than \$20,000,000 for the duration of the Lease and Management Agreement. TFS Properties will satisfy any premiums due in respect of such insurance.

## 7.6 Financial hardship

At any time after the fifth year of the date of commencement of the Lease and Management Agreement, if you suffer financial hardship or any other misfortune causing hardship you may request TFS Properties as the Responsible Entity to pay from TFS Properties' own funds such Fees, expenses, Lease Fees or other costs due by you under the Lease and Management Agreement for the remainder of the Term. Upon receipt of such

a request TFS Properties must consider the request and may at its absolute discretion accept or reject the request.

If TFS Properties agrees to pay the costs on your behalf, you must assign to TFS Properties in respect of each year or part year that TFS Properties pays your costs, 3.5% of the Gross Proceeds of Sale to which you are entitled.

## 7.7 Complaints

If you have a complaint about any aspect of the Project you should:

- ❖ contact TFS Properties in writing (refer to the Corporate Directory for contact details); or
- ❖ contact TFS Properties by telephone (+61 8 9221 9466) and ask to speak with the Complaints Handling Officer.

TFS Properties will acknowledge the complaint within 5 Business Days of receiving it, and resolve the complaint in a timely fashion. If the complaint cannot be resolved within 10 Business Days of acknowledgment then TFS Properties will maintain monthly contact with you informing you of the progress and estimated time frame for resolution of the complaint.



If you are dissatisfied with the resolution of the complaint then:

- ❖ you may refer the matter to the Financial Industry Complaints Service Limited ('FICS') (1300 780 808). FICS is an external complaints resolution scheme of which TFS Properties is a member;
- ❖ access the Project's dispute resolution procedures (refer to Section 7.8); and
- ❖ pursue any other remedies that are available at law.

Further details about the complaint handling procedures are set out in the Constitution.

## 7.8 Dispute resolution procedures

Once the complaints handling procedures (refer to Section 7.7) are exhausted you have the option of accessing the Project's dispute resolution procedures. This is done by providing a dispute notice setting out what is in dispute, the arguments of the party giving the notice and that Party's opinion as to what should be done to rectify the dispute. The Responsible Entity must respond in writing to the dispute notice.

If the dispute is not resolved by TFS Properties' response then the matter will be referred to an independent person who will attempt to resolve the dispute in conference. If the parties remain unable to resolve the dispute then a party may refer the dispute to an independent expert consultant whose decision on the matter will be final and binding.

Further details about dispute resolution processes are set out in the Constitution.

## 7.9 Enhanced disclosure

The Project is a disclosing entity subject to regular reporting and disclosure obligations under the Corporations Act. Copies of documents lodged with ASIC in relation to the Project may be obtained from, or inspected at, an ASIC office. These documents include annual financial, Directors' and auditor's reports as well as continuous disclosure notices. Continuous disclosure notices provide information about matters impacting on the value of Sandalwood Lots which would not otherwise be generally available.

As the Project is a disclosing entity, you may request that TFS Properties (refer to the Corporate Directory for contact details) provide you with the following information within five (5) days free of charge:

- ❖ the Project's most recent Annual Financial Report;
- ❖ any half yearly financial report lodged with ASIC by the Project after that Annual Financial Report and before the date of this PDS; and
- ❖ any continuous disclosure notices given by the Project after the lodgement of that Annual Financial Report and before the date of this PDS.

In the event that the Project is not a disclosing entity you will be provided with ongoing disclosure of any material changes to, and any significant events affecting matters specified in this PDS.

## 7.10 Annual report

You will be sent an annual report in relation to the Project on or before 31 October each year. The annual report will provide you with information pertaining to the operations of the Plantation, the health of the trees and other information affecting the performance or viability of the Plantation.

## 7.11 Confirmation of transactions

You will receive confirmation of transactions occurring in relation to your Sandalwood Lot(s) as required by the Corporations Act. Generally this will include confirmation of the transaction by which you as a successful applicant acquire your Sandalwood Lot(s) and become a Grower.







## 7.12 Default

In the event that you default in payment of any Fees, TFS Properties and/or the Lessor may terminate your Lease and Management Agreement in accordance with its terms and may sue to recover Fees due under the Lease and Management Agreement.

## 7.13 Record of interests

TFS Properties will:

- ❖ send you a certificate for the Sandalwood Lot(s) acquired, after acceptance of your Application;
- ❖ send you a site plan identifying your Sandalwood Lot(s); and
- ❖ maintain a register of Growers, identifying the Sandalwood Lot(s) held. This may be inspected by you at TFS Properties' office during normal business hours.

## 7.14 Applications

To apply for Sandalwood Lot(s), please complete an Application Form and send it to TFS Properties with the Application Money.

More information as to the process of Application and acceptance of Application can be found with the Application Form at Section 11.

## 7.15 Cooling off period

If you make an Application under this PDS you have the right to withdraw the Application and obtain a refund (less any amounts TFS is entitled to deduct by law) within a 14 day cooling off period. The cooling off period is as defined in Sections 1019A and 1019B of the Corporations Act. Your right is subject to the limitations set out in the Corporations Act. The cooling off period begins either from the day TFS accepts your Application in writing or 5 days after TFS issues you an interest in the Project, whichever occurs first. The right to withdraw the Application cannot be exercised at any time after you have exercised a right or power under the Project.

The cooling off period is extinguished once you have signed a Lease and Management Agreement (or the Responsible Entity signs a Lease and Management Agreement on your behalf under a Power of Attorney from you) even if the cooling off period may not then have expired.

## 7.16 Execution of the Directors

This PDS was signed on behalf of the Directors of TFS Properties, the Responsible Entity, by:

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

**FRANK CULLITY WILSON**  
**CHAIRMAN**

# 8.0 EXPERT REPORTS

## 8.1 Expert Forester's Report

**KIMBER ENVIRONMENT SERVICES**  
**ABN 39 703 774 980**

**29 Turnberry Way, Pelican Point**  
**Bunbury, Western Australia 6230**  
**Phone/Facsimile +61 8 9724 1090**

The Directors  
Tropical Forestry Services Ltd.  
254 Adelaide Terrace  
Perth, Western Australia 6000

Gentlemen

This report has been prepared for inclusion in a Product Disclosure Statement to be issued by TFS Properties Ltd. (the Responsible Entity) in respect of the planting and ongoing management of a plantation of Indian sandalwood (*Santalum album*) to be established in the Ord River Irrigation Area (ORIA) of the Kimberley Region of Western Australia in 2006.

It has been researched and written by Peter Kimber of Kimber Environment Services, (the Consultant) an environmental and forest management consultancy that specialises in tropical tree plantations. The Consultant has a first class honours degree in forestry supported by 49 years forest management and research experience gained in East Africa and Western Australia.

The Consultant has been closely involved in the research and development of nursery and plantation techniques for the successful culture of Indian sandalwood in the ORIA since the mid 1980s.

Kimber Environment Services is retained by Tropical Forestry Services Ltd., an associate entity of TFS Properties Ltd. as a Consultant to advise the Company on nursery management and on the establishment and management of its sandalwood plantations, for which services it receives payment.

Irrigated plantation forestry for the production of Indian sandalwood is now a well established industry in the ORIA of tropical Western Australia, with several hundred hectares of plantation having been established over the past 7 years. Experimental plantation areas established by the former Forests Department and the Department of Conservation and Land Management, and now controlled by the Forest Products Commission of

WA are more than 14 years old and their assessment over the past year has provided evidence for the productivity and oil content of Indian sandalwood trees grown in the ORIA of the Kimberley Region. The sandalwood plantation industry is the successful outcome of more than 20 years co-operative research by government departments, WA universities and private forestry companies, and places Western Australia at the forefront of world knowledge and experience in this field of endeavour.

### THE SANDALWOOD TREE

Worldwide there are 15 living species of the sandalwood plant genus *Santalum*, and one species that is thought to be extinct. The 15 extant species occur in Papua-New Guinea, India, Indonesia, and in a number of Pacific island groups. The majority of species occurring in the Pacific region have been over-exploited and in some cases have been reduced to a level where they may be close to extinction.

Indian sandalwood, which is the subject of this plantation project, occurs naturally in India, Indonesia and to a minor extent in the Northern Territory of Australia.



All sandalwoods are partially parasitic, however this parasitism is obligate and sandalwood trees can only survive and grow when they are able to form a union with the roots of other trees and shrubs growing near them. These “host” trees provide the sandalwood with its requirements for nutrients, some metabolites and some of its water needs which are transferred to the sandalwood tree via the root unions. Although catholic in their choice of hosts, Indian sandalwood trees will only flourish and become commercially productive when they are provided with carefully selected host species that have been identified through research trials as highly suited to the hosting function.

Indian sandalwood is a small to medium sized tree with a dense crown. In its native India it may reach 20 metres in height and close to half a metre in diameter. A tree of these dimensions would be very old and hard to find in these days of intense harvesting pressure. Grown in plantation for 14 years, which is the period proposed for this project, trees can be expected to reach no more than 10 metres in height and up to 25 centimetres diameter at the base of the bole. Due to the poor form and bushy nature of most species of sandalwood, tree diameters are traditionally measured 20 to 30 centimetres above ground level where there is generally a length of bole free of branches suitable for measurement. This protocol is followed throughout this report.

Sandalwoods are valued for the aromatic oil they produce in the darker coloured central core of wood in the bole and roots, which is known as heartwood. The oil may be extracted from the heartwood after it has been reduced to very fine chips or ground to a flour-like consistency. The extraction is traditionally carried out using steam distillation, although it can also be extracted with some organic solvents.

The yield and quality of the oil varies greatly from species to species of sandalwood. Indian sandalwood produces the greatest quantity of oil of the highest quality among the sandalwood species. Indian sources quote up to 6 percent of the weight of the heartwood in the lower bole and larger roots consisting of oil. However the average yield appears to be less than this. The level of santalols, the compounds for which the oil is prized, are also quoted at up to 90 percent but again the average figure seems to be lower by several percentage points. The oil content of the heartwood varies with its position in the tree, reaching a maximum in the lower part of the bole, the butt and the larger roots. The concentration of oil declines with increasing height up the tree, as does the amount of heartwood. In the case of trees grown for the 14 years proposed for this project, the heartwood is not expected to extend to more than 3 metres height above ground level.

## BACKGROUND TO THE SANDALWOOD INDUSTRY

According to Indian literature, sandalwood has been traded as a valuable commodity for a period in excess of 2,000 years. The present day market is for sales of heartwood billets, and for small pieces containing both heartwood and sapwood which are used in the manufacture of incense sticks for use in religious ceremony in India and in many other Asian countries. The better quality wood is distilled to extract the oil which is then sold, mostly to the major perfumeries around the world.

In India, where the widest range of uses occurs, in addition to incense it is also used for high quality carvings (valued at up to several thousand dollars each), for cosmetics and toiletries, for medicinal purposes and for flavouring chewing tobacco. The majority of the Indian sandalwood harvest is distilled for the production of the highly-priced oil.

The major producers of sandalwood are India and Australia. The Australian sandalwood industry is based on two indigenous *Santalum* species, *S. spicatum* and *S. lanceolatum*. The former species is harvested in Western Australia and is used primarily for the production of incense sticks. Some is used for distillation to extract the oil, but the yield is much lower than from Indian sandalwood at around 2 percent.

The quality is also inferior with a santalol content of below 30 percent. The Western Australian harvest is controlled by the government and is steady at around 1,800 tonnes per annum.

There is a small annual harvest of a few tonnes of *Santalum lanceolatum* in Queensland which is exported to Asia for burning as incense. *S. lanceolatum* contains around one half of one percent oil.

India remains the only present day source of the highly sought after oil derived from the Indian sandalwood tree.

While demand for sandalwood has remained relatively constant, the resource in India has declined alarmingly over the past two to three decades. While State Governments in India attempt to restrict harvesting to a sustainable level, they are unable to control the widescale theft of sandalwood from state forests and other lands; all sandalwood trees in India are owned by the government, irrespective of the ownership of the land on which they are growing. Some estimates put the level of illegal harvesting at several times the permitted cut. So serious is the problem of illegal over-cutting and the depletion of the resource that the Indian authorities have been

forced to reduce the permissible annual harvest from 3,000 tonnes plus per annum 20 years ago to the present day figure of less than 1,000 tonnes per annum.

As a result of declining availability there has been a rapid escalation in the price of the timber and the oil.

World demand for sandalwood has been variously estimated at between 6,000 and 7,000 tonnes per annum. With the Australian harvest at a fairly steady 1,800 tonnes per annum, the indications are that the demand for Indian sandalwood is of the order of 4,200 to 5,200 tonnes per annum.

With the resource declining at such a rapid rate in India, the future for the production of sandalwood from plantation sources looks very bright.

## THE PROPOSAL

The Responsible Entity proposes to invite subscribers to purchase an interest in timber lots that are to be developed as irrigated plantations of Indian sandalwood on cleared farmland in the Ord River Irrigation Area of the Kimberley Region of Western Australia. The products from the plantation will either be sold and exported as billets and pieces of sandalwood timber, or they may be processed locally to produce oil.

## THE PLANTATION SITE DETAILS

### Location

The proposed plantation will be established on land on the Ivanhoe Plains area of the ORIA on farmland that has been cleared and cultivated for upwards of 30 years. It is situated approximately 16 kilometres north of Kununurra townsite from which it is accessible by sealed road.

### Soils

I have inspected the proposed plantation site. The soils, which have been surveyed and mapped by the WA Department of Agriculture, are almost entirely Cununurra Clay with very minor occurrences of the normal phase of the Keep series soils. The soils on the site are suitable for growing Indian sandalwood plantations and are identical to the soils already supporting successful sandalwood plantations in the area.

Indian sandalwood adapts well to growing in these clay soils, but it is essential to ensure that the land has an adequate slope to shed water if waterlogging effects are to be avoided. The land for this project will be laser-levelled to a suitable gradient which will also provide an adequate flow of irrigation water when it is applied, as well as providing good drainage in the wet season when heavy rains can be expected.

## Climate

Indian sandalwood occurs naturally in a tropical monsoon climate that experiences a wet or monsoon season with heavy rainfall followed by a dry season of several months duration when little or no rain falls and when air temperatures may be high. The tropical north of Western Australia experiences this type of climate, but is somewhat hotter and drier than some of the areas where Indian sandalwood grows naturally. The heat may be a bonus promoting fast growth rates. However to take full advantage of this factor, the plantations have to be irrigated throughout the dry season.

## Water for Irrigation

Irrigation water for the plantation will be accessed from Lake Argyle, a storage dam located 55 kilometres south of Kununurra township, and over 70 kilometres from the site of the proposed plantation. The dam was constructed in the early 1970s specifically to provide water for farms in the ORIA. It now incorporates a hydroelectric plant that supplies power to most of the East Kimberley Region. The dam was designed to provide a reliable source of water for the irrigation for up to 70,000 hectares of farmland while still maintaining a year round flow in the Ord River to retain the wildlife and conservation values of the river system.

To date around 14,000 hectares have been developed as farms and receive irrigation water from the dam.

When full, Lake Argyle has a surface area in excess of 2,000 square kilometres and is close to 100 metres deep at the dam wall.

Water for irrigation is released from Lake Argyle and travels the 55 kilometres along the natural channel of the Ord River. At Kununurra it is held back by a diversion dam forming lake Kununurra the level of which is high enough to gravity feed water via a system of channels to farms on the Ivanhoe Plains. Water supply is controlled by the Ord Irrigation Cooperative who measure the flow of water onto the farm and charge the recipients a fixed rate per megalitre (1 million litres).

## ESTABLISHING THE PLANTATION

### Supply of Tree Seeds

The Responsible Entity has procured locally collected Indian sandalwood seed for the project from plantations in the ORIA. Seed collection is restricted to the better trees in the local plantations. The ripe fruits are collected as soon as they fall from the tree, macerated to remove the fleshy seed

covering and dried within 48 hours of collection. As a result the seed has a very high germinative capacity and is superior to imported seed.

Seed of three of the host tree species is also collected locally from both naturally occurring trees and from those grown in plantation. Seed of the two other host species, which are exotics, have to be imported and are sourced through commercial seed merchants.

On receipt in the nursery details of each seed lot are recorded in a seed register, and the seed is labelled and stored in the nursery coolroom at a constant temperature of 4 degrees Celsius.

### Raising Seedlings

The Responsible Entity owns and runs its own up-to-date nursery on its Packsaddle Road property, a few kilometres south of Kununurra. The nursery has been expanded recently, and with minor additional facilities which are to be constructed shortly, will be capable of producing tree seedlings for up to 200 hectares of plantation.

The Tropical Forestry Services' nursery is run by a highly experienced Nursery Supervisor who has the particular skills and experience necessary for propagating sandalwood seedlings.



## Site Preparation

The correct preparation of the land is paramount to the success of the plantation. The land is first laser-levelled to give it a uniform slope for irrigation and drainage that ensures steady flows of water along the irrigation furrows without causing soil erosion. It is then deep ripped at close spacing to a depth of between 50 cm and 70 cm to eliminate the compaction that has developed over the years from the frequent cultivation associated with agricultural cropping. The land is then cultivated and mounded in readiness for the wet season. During the wet season there is a prolific weed growth which is controlled by up to three applications of a non-selective herbicide made from an aircraft.

As soon as the soil has dried out after the end of the wet season, the land is cultivated and formed into raised beds. These beds are raised at 1.83 metre centres with an irrigation furrow separating them. The paddock to be planted is watered to induce the germination of weed seeds and then sprayed with herbicide after germination has occurred. This procedure will be repeated if there is time before the commencement of the planting season.

## Planting Pattern

Only every second raised bed is planted with tree seedlings. The intervening bed is left unplanted to provide tractor access within the plantation. The tree seedlings are planted so that each row of sandalwood seedlings alternates with a row of long-term hosts. Additional sandalwood seedlings are planted among the Cathormium hosts which occur in every second long-term host row (the other row of hosts being rather more vigorous species which would overtop any sandalwood planted among them).

This planting pattern results in the following number of tree seedlings being planted:

Sandalwood	555 per Ha
Long-term hosts	463 per Ha
Short-term hosts	up to 1,000 per Ha (precise number depends on which host species are used).

The short-term host seedlings are planted in the same rows as the sandalwood seedlings.

Long-term hosts are those that survive for the life of the plantation. Short-term hosts are planted (or sown in the case of one species) very close to the sandalwood seedlings and provide them sustenance before they can make root unions with the long-term hosts. Short-term hosts are short-lived and have served their purpose by the time the plantation is three to four years old.

## The Planting Operation

Planting is carried out during the coolest part of the year in order to minimise stress to the newly planted seedlings. Planting may commence as early as the first week in May and will be completed well before September when the temperatures begin to rise rapidly. As much planting as possible is done using planting machines developed specifically for use with tree seedlings. Occasionally hand planting is resorted to in order to speed up the planting operation.

Sandalwood seedlings are planted into a slurry of water with a horticultural polymer product designed to retain water. This provides them a medium that does not dry out shortly after planting, and it consequently allows flexibility in the timing of the first irrigation. The sandalwood seedlings are staked immediately after planting, using bamboo horticultural stakes. This prevents the taller seedlings being damaged by wind, and also allows the seedlings to be given the temporary protection of a polythene pipe sleeve when herbicide spraying takes place to control weeds.

The Responsible Entity will check the newly planted seedlings before the end of the planting season and will replace any dead ones.

Given the improved land preparation and planting procedures that have been adopted recently, the expectation for survival among the sandalwood seedlings is around 80 percent, giving a stocking of 444 trees per hectare at harvest time.

## MANAGEMENT OF THE PLANTATION

### Irrigation

The plantation will be irrigated during every dry season throughout its life in order to maximise growth rates and yield. For the first dry season after planting, the seedlings will be irrigated every 7 to 10 days. Over subsequent dry seasons, as the tree roots are able to tap deeper levels in the soil, this cycle will be extended slowly to one irrigation every 6 to 7 weeks when the plantation is 5 years old and beyond. This is the established pattern which is basically watering on demand, that is when the soil appears dry and trees start to appear stressed on very hot days.

The Responsible Entity has been calibrating an electronic soil moisture probe in plantations of various ages over the past 15 months. The calibration process has now reached a degree of reliability and precision which will permit the probe to be used as an indicator as to when a plantation

needs an irrigation. To facilitate this, an array of permanently located access tubes for the probe will be installed in every newly planted block of plantation. Soil moisture will be regularly monitored at these sites.

### Weed Control

The complete control of weeds during the early life of the plantation is critical to seedling survival and to vigorous growth in the first year after planting.

In the first dry season weeding is necessary at least once every 4 weeks. Between the rows of tree seedlings weed control is achieved by spraying herbicides with a sprayer that is completely shrouded with canvas to eliminate spray drift. Weed control in this part of the plantation may also be practised using pre-emergent herbicides. Before the short-term hosts have been planted among the sandalwood seedlings, the tree rows are hand sprayed with herbicide after temporary plastic sleeves have been placed over each plant to protect it from the spray. The protective sleeves are removed immediately after spraying.

When the short-term hosts have been planted or sown, weed control in the tree rows is confined to hoeing by hand.

In the second and subsequent years after planting, weeds are kept under control in the tractor access rows by spraying with a contact herbicide and by mechanical slashing.

Weed spraying with a contact herbicide is done periodically also to control weeds in the tree rows once all the tree species have developed a thick bark that is impenetrable to the herbicide spray.

### Pruning the Sandalwood Trees

Sandalwood has a tendency to develop in the form of a bush when the tree is young. In older trees the lower branches are shed as the canopy closes and they become heavily shaded. This self pruning will not happen in the relatively short growing period of 14 years planned for this project. In order to develop a branch-free lower bole it is necessary to manually remove the lower branches by pruning. If the lower branches are left, growth that could be accruing on the extremely valuable lower bole will be dissipated among the branches that are of much inferior value.

Pruning is carried out over a two to three year period, commencing in the second or third year of the plantation, and it results in an approximate 2.5 metre length of branch-free lower bole.

## Pruning the Host Species

Some of the host species are more vigorous than desirable in their younger stages of growth and it becomes necessary to control them by pruning and topping. This is generally achieved by one or two passes of a mango-hedging machine. As a bonus, the topping of the *Sesbania* hosts appears to extend their life-span by a year or two.

## Fertilising

The slower growing long-term host species are given a band application of a nitrogen/phosphate fertiliser in order to boost their growth and that of the adjacent sandalwood trees by transfer of the nutrients via root unions. The optimum frequency of fertiliser application is yet to be determined, but is likely to be every three to four years.

## Controlling Pests and Diseases

There have been occasional instances of sandalwood trees being attacked by water-borne fungal pathogens of the genus *Phytophthora*. These infections have been brought under control by allowing the soil to dry out for a longer period than normal between irrigations, and by applying a specific fungicide that renders the tree resistant to infection for several years.

Indian sandalwood grown in the ORIA has not been subject to any serious threat from insect pests. Occasional infestations of caterpillars and sap sucking insects have been easily controlled with the application of moderate levels of insecticides. Another moth caterpillar that ring-barks young trees has been observed occasionally on sandalwood but has not proved to be a serious threat. This caterpillar also attacks weak individuals among some of the host trees and may occasionally kill them down to ground level. They subsequently send up new shoots.

*Sesbania* hosts are partially defoliated on a fairly regular basis by melon beetles and looper caterpillars. To the present the trees have recovered with no treatment.

The *Cathormium* long-term hosts are subject to damage by scale insects and white fly. Both are readily controlled using suitable insecticides.

The Responsible Entity maintains control over insect problems by instituting regular two weekly inspections of all plantations specifically to check populations of potentially injurious insects. When numbers are found to be building up a spraying programme is initiated.

## Maintaining Infrastructures

Access tracks, water supply channels and drains to remove excess water need ongoing maintenance throughout the life of the plantation.

Maintenance operations include the periodic delving of the channels to clear out silt accumulations, the digging out of drains by backhoe and the grading of access tracks. A number of herbicide spray applications are made annually to control weeds growing on these infrastructures.

## ESTIMATING THE YIELD FROM THE PLANTATION

The development of heartwood in the sandalwood tree has been found to have commenced in most trees by their 5th year, and in some cases it has started earlier. The formation of the heartwood is associated with the development of oil.

Core samples were taken at 30 cm above ground level from 31 trees in the oldest plantation managed by the Responsible Entity, then in its 6th year. The samples were sent to India for analysis in the laboratories of the Institute of Wood Science



and Technology in Bangalore. The results were, in summary:

- ❖ 3 trees had yet to start developing heartwood and oil.
- ❖ 11 trees had detectable traces of oil.
- ❖ 9 trees had between 0.4% and 1% oil.
- ❖ 8 trees had between 1% and 2.35% oil.

It needs to be understood that at this early age the heartwood and oil will be confined to a narrow strip at the base of the tree and the total amount would be very small indeed.

Once initiated, heartwood and oil development continues for the rest of the life of the tree.

A 14 year old experimental plantation belonging to the WA Forest Products Commission (FPA) was recently sampled for the presence of oil in the trees, and for the quality of the oil. The results are to be published by the FPA as a "Sandalwood Information Sheet".

The average oil content in the heartwood in the lower part of the bole of the 20 trees sampled was 3.15 percent, which is a commercially acceptable level.

Oil quality is judged on the percentage of alpha and beta-santalols it contains. The average figures for oil extracted from the sample trees were 44.7 to 46.7 percent alpha santalol, and 20.8 to 22.8 percent beta santalol. These levels meet current ISO standards for Santalum album oil which are 41 to 55 percent alpha santalol and 16 to 24 percent beta santalol.

These figures are indicative of the oil quality that can be expected from trees grown in this project.

The estimates of heartwood yield from the proposed plantation are based largely on data derived from the 14 year old experimental plantation. However, the plantation is growing on a site that has intrusions of Walyara Clay, an unproductive soil type. Yields are therefore likely to be less than on areas of pure Cununurra Clays and yield estimates for this project, based on these measurements, may be conservative as a result.

## HARVESTING THE CROP

The Responsible Entity proposes to remove 20 percent of the trees as a thinning at age 13 years, and to remove the other 80 percent as a final harvest in the following year when the trees will be 14 years old.

Due to a significant portion (18 percent or more) of the heartwood occurring in the butt and larger roots of the tree, it will be necessary to pull the entire tree out of the ground at harvest in order to maximise the yield of the valuable products. The discussion on yield estimates includes heartwood from this source.

The thinning at age 13 years is estimated to consist of approximately 90 trees per hectare averaging 25 kilograms of heartwood in each tree, and giving a total yield of 2.2 tonnes of heartwood per hectare.

The final harvest at age 14 is estimated to consist of approximately 350 trees per hectare averaging 27.5 kilograms of heartwood in each tree, and totalling 9.6 tonnes of heartwood per hectare.

The above estimates are dependent on the assumption that the survival rate of 80 percent of the number of planted trees is achieved, and that heartwood development continues at the rate observed in samples taken from 5 year old and 14 year old trees.

Each subscriber to the project is to be given the option of pooling the produce from their timber lots with those of other subscribers at harvest time. The Consultant believes this to be an excellent option.

## RISKS AND RISK MANAGEMENT

### Climatic Risks

The Kununurra area lies within the climatic zone of Australia that is liable to experience tropical cyclones. In practice, the plantation area is situated far enough inland not to experience the full force of cyclones which have generally declined to the status of rain-bearing depressions by the time they reach Kununurra. Of more concern are the thunderstorms accompanied by strong winds that are associated with the break of the wet season. These events are short-lived but violent and can result in the tops being snapped off young sandalwood trees at the edge of the plantation. To avoid this situation the Responsible Entity follows a policy of planting a windbreak of host species on the more exposed edges of the plantations.

### Fire

The Kimberley Region experiences grass fires in the natural savannah woodlands of the area on an almost annual basis. Such fires rarely if ever penetrate the irrigated farms and are equally unlikely to enter a well managed, irrigated sandalwood plantation. The site of the 2006 project is completely surrounded by irrigated farms and the fire risk is virtually nil.

### Disease

Mention has been made in a previous section of this report of the risk of introducing water-borne fungal pathogens, particularly *Phytophthora* in an irrigated plantation. This risk will be minimised by the conservative applications of water based on soil moisture monitoring, and by the aerial application of suitable fungicide in the more susceptible areas.

Host species in some of the oldest sandalwood experimental areas are beginning to show symptoms of infection by the timber-rotting fungus *Ganoderma*. No such infections have been reported in the host species that are currently used in Tropical Forestry Services' plantations. As an insurance against losing a long-term host, the Responsible Entity continues to use three different tree species to perform this function.

### Rising Groundwater

In common with irrigation schemes world-wide, the ORIA is experiencing rising water tables caused through leakage from water supply channels and through the excessive use of water on some crops. The rises are regularly monitored by the West Australian Waters and Rivers Commission and are far from uniform over the area.

The historically recorded rises of the water table in the area of the proposed plantation have been on the high side, however, the water table remains at around 3 metres below the soil surface. The latest Water and Rivers Commission report on the hydrogeology of the ORIA indicates that areas near the Ord River on the Ivanhoe Plain experience a natural drainage towards the river which prevents the water table from rising too close to the soil surface, and this is likely to apply to the plantation project. In the event of exceptional accessions to the water table, by a succession of unusually heavy wet seasons for example, the Ord Irrigation Cooperative have deep bores already drilled that can be used to pump out deep groundwater. This has been done on a trial basis and proven successful.

Based on evidence from hydrological studies on tree plantations in southern Australia, it is likely that the ORIA sandalwood plantations will lower the water table in their immediate vicinity as they develop and completely occupy their site.

### Other Risks

Although individual trees and sizeable trial plots of Indian sandalwood have been grown on the ORIA since the early 1980s, it is only recently that an experimental plantation has been grown to harvesting age. Forecasts of growth and yield are

## ENVIRONMENTAL AND SOCIAL CONSIDERATIONS

based on this single plantation and on the extrapolation of growth rates and characteristics of other individual and small groups of trees growing in the area, and backed by the extensive scientific literature on Indian sandalwood which is largely based on trees growing in natural forests.

All the technology to be applied to this project has been developed and extensively tested locally over a period of almost 20 years. It has been proven also by 7 years of establishing and managing plantations on a commercial scale. The Consultant has been closely involved in these development stages and regards the techniques and protocols that have been developed and which are to be adopted for this plantation project to be robust and reliable.

Sandalwood plantations, in addition to their probable contribution to the lowering of the water table, will benefit the ORIA in a number of environmentally positive ways. The man-made sandalwood forests will provide a new habitat for forest inhabiting birds and animals. Forests are not very widespread in the arid climate of the East Kimberley Region, and are largely confined to the fringes of watercourses and to sheltered and well watered gorges where patches of remnant rain forests still occur. Both of these forest types have been much reduced in area through cattle grazing and burning following European settlement.

The plantations will provide some visual diversity and relief in the flat, treeless landscape of the farming area. They will also contribute fewer pesticide and fertiliser residues to the local river systems than conventional farming due to the benign management practices using minimal chemical applications in tree plantation silviculture.

Socially the plantations will provide a level of year-round work, compared to the highly seasonal employment offered by farming in the area. At the same time they provide a substantial injection of funds into the local economy through the payment of wages and the purchase of goods and services.

## DISCLAIMER

Kimber Environment Services has prepared this report to bring to the attention of potential subscribers to the project an overview of the activities and operations to achieve a successful outcome, and to bring to their attention any risks that may arise in undertaking the project. This report does not comment, and does not purport to make comment on the financial, taxation and product marketing aspects of the project.

Kimber Environment Services gives no assurance or guarantee that the proposed plantation regime and its outcomes will be as predicted.



Peter C. Kimber, BSc (Hons. Forestry), M.I.F.A.  
Kimber Environment Services



## 8.2 Expert Sandalwood Marketing Report

H.S. Anantha Padmanabha  
Forestry Consultant

Poorna Pragna Lay Out  
#31, AMBIKA, BSK 3rd Stage  
Bangalore-560085, INDIA  
10th August 2005

Dear Sirs,

### MARKET REPORT ON SANDALWOOD

This report has been prepared for the inclusion in a Product Disclosure Statement ('PDS') to be issued by TFS Properties Ltd for the TFS Sandalwood Project 2006.

I am a qualified scientist with over 35 years experience in forestry in India. I was a senior scientist at the Institute of Wood Science and Technology in Bangalore (India) from 1964 to 1998 and I was responsible for guiding research projects on sandalwood, including but not limited to techniques of growing sandalwood and disease and pests affecting sandalwood. I have co-

authored books on sandalwood and have published over 125 publications in both Indian and International Journals. From 1994 to 1998 I was designated Chief Technical Advisor for sandalwood projects with the World Bank FREE project (ICFRE) in India. I am currently a Director of Karnataka Research Foundation and Advances Science Technology Transfer in Bangalore, and a consultant to Karnataka Soaps and Detergents Ltd, Bangalore, a major long-term buyer of sandalwood who manufactures sandalwood oil, billets and Mysore Sandal Soap. I have been attending sandalwood auctions to assess and buy quality sandalwood for over 6 years.

I am a suitably qualified person to provide information on sandalwood markets and prices both past and present, whilst being well placed to consider trends into the future.

I have no financial interest in TFS, with my financial arrangements limited to the provision of this report and some other general consultancy work.

### SANDALWOOD - A VALUABLE COMMODITY

Sandalwood and its oil has been one of the most valuable and wanted perfumery materials in the world from the earliest times of civilisation. Powder of Indian sandalwood (*Santalum album*) heartwood, upon distillation, yields what is known

as 'East Indian Sandalwood Oil' which is highly rated for its fixative properties and for its persistent, heavy, sweet, woody scent. A good fixative agent, it will also bind other odour molecules to it and impart its characteristic properties on them.

Indian sandalwood fetches the highest export price of any Indian forest product.

### HABITAT AND PROPERTIES

#### Occurrence

Apart from India, *Santalum album* can be found in Indonesia, New Caledonia, Fiji Islands, Philippine Islands and the Northern Territory of Australia.

In India, sandalwood is found throughout the length and breadth of the country but particularly in South India, where the states of Karnataka and Tamil Nadu account for nearly 80 percent of the total Indian resource.

#### Heartwood formation

The Indian sandalwood tree is harvested for its heartwood, which is rich in fragrant oil. The heartwood is found in the centre of the roots, trunk and major branches and is surrounded by sapwood. The formation and development of heartwood is dependent on age, growth, soil and

ground moisture; and genetic factors also seem to play an important role.

I have considered the TFS Plantation Management Plans, and have reviewed the TFS plantations in April 2005. I am of the opinion that the forecast of average yield of 30kg of heartwood per Sandalwood tree is achievable in the plantation time frame.

The heartwood is described as astringent, bitter, antipyretic, moderately hard, heavy, durable, slow seasoning, pleasantly and strongly scented, yellow or brown in appearance, even textured (straight, close grains and uniform fibres) with an oily feel and almost free from knots. Once harvested, a sandalwood tree will need to be seasoned - that is stored - for six months or greater to provide for moisture loss. Moisture should be removed naturally rather than through heating, and hence the longer the storage, the better the natural, gradual moisture removal.

### Colour of heartwood and oil content

In trade, superiority of wood is generally judged on the basis of colour and the portion of the tree from which it is taken. Sandalwood's heartwood ranges in colour from light yellow to dark chestnut brown, with merchants preferring the light brown to yellow colour.

Colour of wood	Oil (%)	Santalol* (%)
Yellow	2.7-3.5	90
Light brown	2.5-6.0	85 -90
Brown	About 2.5	> 85
Dark Brown	> 2.5	75 - 85

\*Alcohol contained within sandalwood oil.

The price of wood will be affected both by colour and the oil content, which in turn are interrelated. Wood with higher oil content will receive a greater sale price than that with a lower oil content.

I have viewed the TFS plantations, and have had analysed trees at the age of 3 years for oil, and can confirm that analyses have proven the presence of oil within those trees - earlier than would normally be found in a natural environment in India.

In April 2005 I also received from TFS core samples from 31 six year old Indian Sandalwood trees from their 1999 plantings. These were analysed at the Institute of Wood Science in Bangalore and returned very good oil yield results considering the age of the trees. In 4 cases the oil yield was over 2% which is exceptional for trees of that age. Seventeen of the samples had 0.5% oil content or better. In all but three cases evidence of oil was detected. These results auger well for the future of the Indian Sandalwood industry in the ORIA ,as in India as such consistent oil indications would not be expected in trees so young.

Heartwood is contained within the trunk, butt, roots and major branches. The oil content in the butt and the roots is slightly more than in the trunk and the branches. It is said that one tonne of good sandalwood roots and butt will yield 55 to 60kgs of oil; whereas the branches would yield a lower percentage of oil. Within the tree there will be slight progressive reduction in the oil content from roots to butts to stem and ultimately to the branches.

### USES FOR SANDALWOOD

Sandalwood is one of the finest woods for carving and turning to intricate workmanship. Sandalwood is used for carving idols and utility items like furniture, jewel boxes, cabinet panels, chess boards, pen holders, paper weights, picture frames, caskets, wall plaques and other curios.

Powdered heartwood from which the oil has been extracted is used in the manufacture of incense sticks, which are burned during religious ceremonies and for meditation.

Powdered heartwood upon distillation yields East Indian sandalwood oil, which is a highly priced raw material in the perfumery industry. In perfumery, it is valued for its non-varying composition and fixative properties and for its persistent heavy sweet, woody scent.

The good fixative properties of the oil are due to its high boiling fragrant constituents and santalols (which have a high boiling range). The oil is used extensively in the cosmetics industry in the manufacture of soaps, face creams, toilet powders and air fresheners.

Medicinally, sandalwood is used as an antiseptic, antipyretic, diuretic, and expectorant stimulant and for treatment of bronchitis, gonorrhoea and urinary infections.

Sandalwood has many important cultural uses. Sandalwood paste is smeared on the forehead during puja (prayer) and the paste is mixed with water and given as thirth (prasad). Sandalwood chips are burned in Yajna to carry scented fumes to 'God'. Sandalwood is used in the funeral pyre in Hindu culture. In India about 15 to 20 percent of wood traded every year is sold to registered artisans at a subsidised rate of 20 to 30 percent of the value. Individuals purchase small quantities of wood to use as household medicines, while temples make bulk purchases for making paste during puja.

The majority of wood is sold for export or for the extraction of sandalwood oil.

## HARVEST OF SANDALWOOD IN INDIA

In India, the proportion of wood harvested officially is small in proportion to that illegally harvested. As the wood has become increasingly valuable the amount of wood illegally harvested has grown and this has in turn necessitated a reduction by government of its annual harvest due to concerns over sustainability.

During 1961 to 1965 the official government harvest of sandalwood was on average 3,200 tonnes per annum, this increased to an average of 4,000 tonnes during 1967 to 1970, meeting 80 to 90 percent of the world demand. Unfortunately, in the period since 1970 the official government harvest has dwindled to a current level of a mere 1,000 tonnes per annum.

However, it is estimated that the annual harvest of sandalwood is currently approximately 5,000 tonnes per annum. The difference between the government harvest and the estimated annual harvest is that which is illegally harvested of approximately 4,000 tonnes.

The size of the illegal harvest is difficult to prove. However newspaper reports describe harvests of this size, and greater. Further there are some 50 to 60 sandalwood oil distilleries throughout India, including areas where sandalwood trees are not found. I have visited many of these distilleries and have checked their capacities and production. I can confirm the figures total much greater than the quantity of official wood harvest.

Grave concerns are held over the sustainability of current sandalwood unless the illegal harvesting can be restricted. Sandalwood is on the endangered list in India, but there has been little effort to encourage further growth.

## PRODUCTION OF SANDALWOOD OIL IN INDIA

India is maintaining the international quality of oil to 'Agmark' standard (Ag representing agriculture, mark representing the standard) and has a monopoly on world trade. Due to the decline in the official government harvest, the official production of oil has also declined.

During 1958 to 1970 India was officially producing nearly 180 to 200 tonnes of oil, meeting 90 percent of the world demand. From 1981 to 1994 the production of oil showed a decrease in trend gradually until reaching a fairly constant level of 60 tonnes per annum. This production reduced to 50 tonnes during 2001 however it increased to 60 tonnes during 2002.

It is estimated that the actual production of oil is approximately 150 tonnes, which is approximately 2.5 times the official government harvest.

The biggest producer of sandalwood oil in India was the Sandal Oil Factory in South India, where they were distilling approximately 1,200 tonnes of



wood annually to produce oil. They were the leading exporters of oil. At present, the available raw material is not enough to meet their captive consumption.

Apart from India, *Santalum album* is found in Indonesia, New Caledonia, Fiji Islands and Philippine Islands. Indian contribution to the world market is around 95 percent, Indonesia contributes about 2-3 percent and the rest would barely contribute 2 percent.

## RATE OF DEPLETION OF WORLD RESOURCE

The rate of depletion of India's sandalwood resource is very rapid and is as a result of illicit felling, biotic interferences (such as fire, grazing, browsing and hacking) and spike disease.

The level of annual government harvest illustrates the depletion of the resource, which has been in decline over the past 13 years.

Efforts have increased to raise new plantations, with the State Government amending ownership laws to vest ownership with the plantation owner. However the Government has retained control of when the trees can be harvested, and as sandalwood offences are non-bailable the public remain cautious. The public is yet to come forward to grow sandalwood plantations to meet the

demand. If they were to commence it, it will take at least another 20 years to reap the harvest.

In Indonesia there has been a sharp decline in the production of sandalwood over the past 12 years and it is estimated that there may not be any production in the current year because of a logging ban. To prevent collapse of the established industries they may have to import wood from Australia or India. (update and insert graph Annual Government Sandalwood Harvest India)

## CONSUMPTION OF SANDALWOOD IN INDIA

In India, sandalwood oil is one of the essential oils required in perfume formulations, cosmetics, beauty-aids and religious functions. The consumption of wood and oil is mainly in the following industries:

- ❖ Perfumery;
- ❖ Attar preparations;
- ❖ Soap and toiletries;
- ❖ Incense sticks;
- ❖ Medicines; and
- ❖ Chewing scented tobacco.

Internal consumption is increasing regularly and the annual requirement of wood is estimated as being 800 tonnes. The annual requirement for oil is approximately 60 tonnes. The official figures

available with regard to wood and oil production would not match the quantity in use by various industries because of the level of illicit dealing.

Because of short supply of natural oil, some industries making incense sticks and pan masala (scented chewing tobacco) have switched over to synthetics, unmindful of the harmful effects to human beings.

## EXPORT OF SANDALWOOD FROM INDIA

The Government of India controls the export of sandalwood and oil. There is no fixed annual volume of quantity for export. Export permits are given to the exporters based on their possession of material. During the year 2002 the Government of India gave permission to export 2,000 tonnes of wood. Merchants who had stored wood over the years exported wood to various countries.

At present the bulk of sandalwood material comes from Tamil Nadu State in India. The Forest Department advertises for open bidding competition approximately 4 times per year for the sale of wood. The quantity of wood auctioned every year depends on the extracted stock position and at the same time limits quantity of wood sale, when the target revenue fixed by the State

government is reached. Sale of wood in 2001 was approximately 1,000 tonnes and during 2002 and 2003 it increased to approximately 1,400 tonnes in each year. The Tamil Nadu Forest Department has a significant stock of unfinished wood, which will probably last for some years. The Indian buyers either use it for the distillation of oil or export both wood and oil to different countries after obtaining permits.

However India will not be in a position to regularly produce these quantities of wood annually beyond 6 to 7 years.

The major export markets for Indian Sandalwood wood and oil are France, Taiwan, Hong Kong, Japan, Malaysia, Singapore, Dubai, South Africa, the UK and the USA, with the UK and the USA accounting for approximately 75 percent of all export sales. It is anticipated with the increasing affluence of China, that China might once again become a major importer of sandalwood.

In Asian countries like India, Pakistan, Bangladesh and Sri Lanka, nearly 10 to 15 percent of the populations are regularly using scented tobacco. It is claimed that this industry alone requires more than 20 tonnes of oil annually and is fast growing. The demand for sandalwood in scented tobacco can be expected to triple over the next five years.

## MARKETING TRENDS

### Indian Price Trends

From 1990 to 2005, the sale price of sandalwood in India has increased from A\$5,100 per tonne to A\$93,200 per tonne, an average increase of 23 percent per annum. The last auction in Tamil Nadu in July 2005 recorded average prices across all categories of wood of A\$93,200 per tonne. September 2004 recorded average prices across all categories of wood of A\$58,300 per tonne. This steep rise in sale price, which has become a trend over the past few years, is due to liberalisation of export by the Indian Government. It is likely that this trend will continue due to dwindling supplies.

### Price Trend (Average)

1990 - 1991	A\$ 5,100
1991 - 1992	A\$ 7,600
1993 - 1995	A\$ 9,500
1996 - 1997	A\$17,500
1998 - 1999	A\$22,200
1999 - 2000	A\$22,000
2000 - 2001	A\$30,900
2001 - 2002	A\$36,800
2002 - 2003	A\$54,600
2003 - 2004	A\$58,700
2003 - 2004	A\$58,300
January 2005	A\$85,300
July 2005 (Current)	A\$93,200

Based on the current market price of sandalwood, oil distilled should be sold for not less than A\$850 per kg, assuming 1 tonne of wood distilled produces around 50 kgs of oil. This includes overhead charges. It is to be noted that the spent powder from the oil extraction process is also a highly saleable commodity, valued at A\$400 to A\$660 per tonne.

Further, there is a market within India for the sapwood (white chips) that is removed to access heartwood. The current demand is over 1,500 tonnes per annum.

### International Price Trends

Prices in the regulated Indian market are lower than the prices achieved in the international market. Currently sandalwood is sold to other countries on average at A\$102,000 per tonne.

## INFORMATION ON THE CURRENT DEMAND

It is estimated that the annual requirement by Indian essential oil and allied industries is for about 800 tonnes of wood and 60 tonnes of oil. Assuming a conversion rate of 5 percent of wood to oil, the total annual requirement within India is 2,000 tonnes. Currently India exports a total quantity of 3,000 tonnes of wood comprising

2,000 tonnes of wood and 50 tonnes of oil (which in wood-equivalent is 1,000 tonnes).

The supply is declining and the demand is increasing in both domestic and international markets for wood and oil. This gap between the supply and demand is expected to continue to cause ongoing price increases.

I am of the opinion that price rises which we have seen in recent years are unsustainable in the long term. Taking a very conservative approach to the price trend, an annual price increase of at least 5 percent per annum is achievable and sustainable into the foreseeable future.

Some of the major perfumery, attar and scented tobacco industries have become aware that users may slowly reject synthetic products because of harmful side effects. Asians in particular have become more conscious and are demanding only natural ingredients to be incorporated in various products. The habitual users can differentiate between the natural and the synthetic stuffs; the synthetic products give the odour at the time of consumption and do not last long, whereas the natural oil gives long lasting effects which are very much sought after.

It may not be possible to meet the growing demand of this natural essential oil if new plantations with suitable management practices are not raised elsewhere.

## EFFECT OF WOOD PRODUCTION FROM AUSTRALIAN PLANTATION PRODUCERS

I have also been asked to consider the issue as to the ability of the Australian sandalwood plantation to enter the market place for sandalwood, and the potential impact on prices with their entry.

I have considered that perhaps there might be 100 Hectares per annum harvested, which would equal approximately 1,000 tonnes of heartwood per annum.

As noted throughout this report I have estimated the market supply as currently at 5,000 tonnes per annum but diminishing, with the demand increasing.

1,000 tonnes per annum of sandalwood production out of Australia will be readily absorbed into market at that point of time.

It is my opinion that this supply will not affect the long term pricing of sandalwood though there will need to be some marketing efforts made by the Australian producers to maximise their realisable sale.



H.S. Anantha Padmanabha  
10th August 2005



# 9.0 SUMMARY OF MATERIAL AGREEMENTS

This Section contains summaries of the principal terms of material agreements that relate to the Project. The material agreements are:

1. the Constitution;
2. the Compliance Plan;
3. the Lease and Management Agreement;
4. the Agreement for Sub-Lease;
5. the Plantation Management Agreement; and
6. the Head Lease.

The whole of the provisions of these agreements is not repeated in this PDS. Copies of these agreements are available for inspection at the registered office of the Responsible Entity during normal business hours.

## 1. THE CONSTITUTION

The Constitution is dated 23 November 2005 and operates as a deed binding on all of the Growers of the Project and the Responsible Entity. The Constitution establishes and governs the TFS Sandalwood Project 2006 (ARSN 117 134 611). In compliance with the Corporations Act, the Constitution has made adequate provisions for those matters referred to in section 601GA of the Corporations Act.

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The Constitution includes provisions to the following effect:

### 1.1 The Responsible Entity

The Responsible Entity is appointed and agrees to act as responsible entity of the Project.

### 1.2 Application Price

To acquire a Sandalwood Lot in the Project and become a Grower an Applicant must pay the applicable Fees (referred to in the Constitution as the 'Application Price').

### 1.3 Creating the Funds

The Responsible Entity must create an Application Fund (to hold Application Money) and a Proceeds Fund (to hold the proceeds from the sale of the Forest Produce).

### 1.4 Project Property

All Project Property must be held by the Responsible Entity for the Growers or alternatively by an agent appointed by the Responsible Entity. The property for each Scheme will be kept separate and distinct from the property of any other Scheme.

### 1.5 Complaints

The Responsible Entity must appoint a Complaints Handling Officer to deal with complaints made by Growers. The Responsible Entity must within five Business Days after receiving a complaint from a Grower, write to the complainant either to acknowledge the complaint or respond fully to the complainant in respect of the complaint made.

The Responsible Entity must attempt to respond fully to the complainant within 10 Business Days after the acknowledgement of the complaint is made by the Responsible Entity. If a complaint cannot be resolved to the satisfaction of the complainant then the complainant may proceed under the dispute resolution procedures contained in the Constitution, lodge a complaint with the Financial Industry Complaints Service or take whatever other action is open to the complainant under the general law.

### 1.6 Winding-Up

The Responsible Entity must wind up any Scheme or the Project or cause any Scheme or Project to be wound up in any of the following circumstances:

- (a) on the direction of the Growers in the Scheme or Project in accordance with section 601NB of the Corporations Act;

- (b) if the Responsible Entity considers the purpose of the Scheme or Project has been accomplished or cannot be accomplished in accordance with section 601NC of the Corporations Act;
- (c) a court orders the Scheme or Project to be wound up pursuant to section 601ND of the Corporations Act.
- (d) any of the circumstances set out in section 601NE of the Corporations Act apply such that the Responsible Entity is required to wind up the Scheme or the Project; or
- (e) in any other circumstances provided for under the Corporations Act.

To wind up the Project (or Scheme) the Responsible Entity must convert to money all Project Property, deduct all costs, fees, expenses and other money in accordance with the Constitution and the Corporations Act and then divide the balance amongst Growers according to each Grower's Proportional Interest in the Project (or Scheme).

### 1.7 Fees and Expenses

The Responsible Entity is entitled to be paid, in respect of any Scheme, from Project Property (for that Scheme) those fees provided for in the Constitution and any Lease and Management Agreement by way of remuneration for carrying out

its duties and obligations under the Constitution or any Lease and Management Agreement. The Responsible Entity is entitled to be paid in respect of any Scheme, from, or reimbursed from Project Property (for that Scheme) for all costs, charges, expenses and outgoings that are incurred by the Responsible Entity in establishing, administering and/or winding up the Scheme.

### 1.8 Indemnity

The Responsible Entity has a right of indemnity out of the Project Property for any Scheme in respect of any liability incurred by the Responsible Entity in the performance of its duties in respect of the Scheme and all fees payable to and costs recoverable by the Responsible Entity under the Constitution or any Lease and Management Agreement in respect of the Scheme.

### 1.9 Application Money

Application Money is to be paid in full at the time of lodging an Application, unless the Responsible Entity exercises its discretion to permit instalment payments of Application Money.

All Application Money is to be paid by Applicants directly to the Responsible Entity who must place that Application Money in the Application Fund.

Only when all of the conditions that are required to be satisfied under the Constitution are satisfied can the Application Money be released to the Responsible Entity.

### 1.10 Lease and Management Agreements

The Responsible Entity must prepare a Lease and Management Agreement as soon as practicable after its acceptance of an Application. The Responsible Entity must execute the Lease and Management Agreement or Agreement for Sub-Lease for itself and on behalf of the Applicant pursuant to the power of attorney granted to the Responsible Entity and ensure that the Head Lessor and Lessor execute the Lease and Management Agreement.

### 1.11 Releasing Application Money

Prior to releasing any Application Money held by the Responsible Entity, the Responsible Entity must be reasonably satisfied that:

- (a) the Lease and Management Agreement has been duly completed and executed by all parties;

- (b) the Head Lessor is the registered proprietor of all of the land that is to be sub-leased;
- (c) there is an existing lease agreement between the Head Lessor and the Lessor over the land that includes the land that is to be sub-leased;
- (d) the land that is to be sub-leased is not subject to any encumbrance or restriction which detrimentally affects the interests of an Applicant and which is not disclosed in the PDS;
- (e) there are no outstanding material breaches of any of the provisions of the Constitution which detrimentally affects the interests of an Applicant; and
- (f) any minimum subscription which is referred to in the PDS has been obtained.

Upon being satisfied of the matters listed above the Responsible Entity must release the Application Money and apply it in payment of the Fees payable under the Lease and Management Agreement.

### **1.12 Distribution of the Proceeds Fund to Growers**

Pursuant to the terms of the Lease and Management Agreement the Responsible Entity must deposit the proceeds from the sale of the

Sandalwood into the Proceeds Fund before payment of all relevant fees and expenses and distribution of the remainder to Growers.

### **1.13 Power and Duties**

The Responsible Entity must:

- (a) perform the obligations that are imposed on it in the Lease and Management Agreements;
- (b) ensure that all services which are required of it under a Lease and Management Agreement are performed in a proper and efficient manner;
- (c) manage the business, investments and affairs of each Scheme and the Project; and
- (d) ensure any goods or services which are required to be provided or performed under the terms of the Lease and Management Agreement are provided or performed in accordance with any contractual rights of Growers and the terms disclosed in this PDS.

### **1.14 Limitation of Liability**

To the extent permitted by law the Responsible Entity is not liable for any loss or damage to any person arising out of any matter where, in respect of that matter:

- (a) it relied in good faith on the services of, or information or advice from any person appointed by it;
- (b) it acted as required by any law; or
- (c) it relied in good faith upon any signature, marking or documents.

### **1.15 Appointment of Agents**

The Responsible Entity may appoint any person to perform any task or carry out any services it thinks fit, but the Responsible Entity is taken to have done (or failed to do) anything that any person appointed by it has done (or failed to do) because of that appointment.

### **1.16 Transfer and Transmission**

Assignment of interests in the Project is governed by the terms of the Lease and Management Agreement. Clause 21 of the Constitution contains details of certain administrative and procedural matters relating to assignment. Clause 22 of the Constitution deals with the transmission of the Grower's interests in the event of death, bankruptcy or mental incapacity of a Grower.

### **1.17 Retirement and Removal**

The Responsible Entity may only retire as responsible entity of the Project in accordance with



section 601 FL of the Corporations Act. The Responsible Entity may only be removed as responsible entity of the Project in accordance with sections 601FM or 601FN of the Corporations Act.

### 1.18 Register

The Responsible Entity must keep an up to date register of Growers.

### 1.19 Meetings

Meetings of Growers shall be held in accordance with the provisions of Part 2G.4 of the Corporations Act.

### 1.20 Accounts

At the end of each financial year the Responsible Entity must prepare or cause to be prepared all reports required to be prepared by Part 2M of the Corporations Act and must send copies of those reports to all Growers.

### 1.21 Modification of Constitution

Subject to section 601GC of the Corporations Act, the Constitution may be modified by the Responsible Entity or by special resolution of Growers.

## 2. COMPLIANCE PLAN

The Responsible Entity has prepared a Compliance Plan as required by the Corporations Act to ensure that it meets its obligations as the responsible entity of the Project and the rights of Growers are protected.

Part 5C.4 of the Corporations Act states that the compliance plan of a registered scheme must set out adequate measures that a responsible entity is to apply in operating the registered scheme to ensure compliance with the Corporations Act and the constitution of the registered scheme.

The Compliance Plan includes procedures for ensuring that:

- (a) Project Property is clearly identified as Project Property and held separately from the property of the Responsible Entity and property of any other scheme;
- (b) the Compliance Committee functions properly;
- (c) the Project Property is valued at regular intervals appropriate to the nature of the property;
- (d) the Compliance Plan is audited; and
- (e) adequate records of the operations of the Project are kept.

It is a requirement of the Corporations Act that the arrangements listed above are specifically dealt with.

In addition the Compliance Plan sets out procedures in relation to:

- (a) the establishment and operations of the Compliance Committee;
- (b) the appointment of a Compliance Officer and the duties of, and reports to be prepared by, the Compliance Officer;
- (c) conduct of business issues, such as procedures in relation to insurance, income collection and distribution, promotion, pricing and distribution of the Project and Project fees and expenses;
- (d) related party issues;
- (e) appointment and monitoring of external service providers;
- (f) the handling of complaints;
- (g) the training, recruitment and experience of staff;
- (h) monitoring compliance with the conditions of the Australian Financial Services Licence held by the Responsible Entity ('Licence');
- (j) reporting breaches of the Corporations Act, the Constitution, industry standards, internal policy or the Licence conditions; and
- (k) continuous disclosure.

### 3. LEASE AND MANAGEMENT AGREEMENT

The parties to the Lease and Management Agreement are the Responsible Entity in its capacity as the Manager, the Lessor and the relevant Grower. The Lease and Management Agreement is divided into three main parts being:

- (a) sub-lease of the relevant Sandalwood Lot(s) from the Lessor;
- (b) management of the relevant Grower's Sandalwood Lot(s) by the Responsible Entity; and
- (c) general provisions.

The sub-lease section includes provisions to the following effect:

#### 3.1 Grant of Sub-Lease

The Lessor grants to the relevant Grower a sub-lease of the relevant Sandalwood Lot(s) together with all improvements and fixtures, subject to any specified encumbrances.

#### 3.2 Rent

Rent is \$825 per annum (inclusive of GST) per Sandalwood Lot and is paid annually. As an

alternative, each Grower may prepay the rent or if they are not indebted to Arwon Finance Pty Ltd they may elect to defer payment of rent and management fees by giving the Responsible Entity a greater share of the Gross Proceeds of Sale. See section 3.11 for further details.

#### 3.3 Grower's Obligations

The relevant Grower's obligations include the following:

- (a) not to use or permit to be used the relevant Sandalwood Lot(s) for any purpose other than that of commercial silviculture of Sandalwood trees and not to use the relevant Sandalwood Lot(s) for the purpose of permanently or temporarily residing on it or for residential, recreational or tourist purposes;
- (b) at all times to manage, cultivate and work the relevant Sandalwood Lot(s) in a proper and skilful manner and according to generally accepted silvicultural methods, so as to maintain and develop the relevant Sandalwood Lot(s) for the purpose of long term commercial silviculture;
- (c) do all things reasonable to prevent the outbreak or spread of fire upon, from or to the relevant Sandalwood Lot(s);

- (d) comply with all statutes, ordinances, proclamations, orders and regulations present or future affecting or relating to the relevant Sandalwood Lot(s);
- (e) to transfer to the Responsible Entity, 50% of the Carbon Credits (if any) to which the relevant Grower is entitled pursuant to the terms of the Lease; and
- (f) upon the expiration or sooner determination of the Lease to peaceably surrender and yield up to the Responsible Entity the relevant Sandalwood Lot(s) clear and free of rubbish and in good and substantial repair and condition.

#### 3.4 Lessor's Covenants

The Lessor's covenants include the following:

- (a) to give the Grower quiet enjoyment;
- (b) that there are no mining tenements adversely affecting the Grower's interests; and
- (c) that all sub-leases will be in the same form or to the same effect.

### 3.5 Termination by the Lessor

The Lessor may terminate the Lease if the relevant Grower defaults in relation to the payment of money due and payable and the default continues for six months or the relevant Grower commits any breach or default in the due and punctual observance of any of the relevant Grower's covenants (but not in relation to payment of money) and that default is not remedied within one month of receiving written notice specifying the default and requiring it to be remedied.

The management section includes provisions to the following effect:

### 3.6 Appointment of Responsible Entity as Manager

The relevant Grower appoints the Responsible Entity to manage the relevant Sandalwood Lot(s) by performing the Services (as defined in the Lease and Management Agreement) and the Responsible Entity accepts the appointment.

### 3.7 The Services

The services to be provided by the Responsible Entity are as follows:

#### 3.7.1 Establishment Services

The Responsible Entity must supervise and manage all commercial silvicultural activities to be carried on by the relevant Grower on the relevant Sandalwood Lot(s) and must:

- (a) acquire appropriate seeds and seedlings;
- (b) carry out weed control, surveying and ground preparation of the relevant Sandalwood Lot(s);
- (c) plant on the relevant Sandalwood Lot(s), in accordance with good silvicultural and forestry practices, sufficient Sandalwood seedlings or trees, which would reasonably be expected to produce harvestable Sandalwood within 15 years from the Commencement Date at a rate which would reasonably be expected to provide a survival rate of 444 trees per hectare at the end of the third year after the Commencement Date;
- (d) plant on the relevant Sandalwood Lot(s) such other trees as it may consider to be necessary to enable or encourage the growth of or to protect the Sandalwood seedlings or trees growing on the relevant Sandalwood Lot(s);
- (e) irrigate, cultivate, tend, cull, prune, fertilise, replant, spray as required in support of planting; and

- (f) use all reasonable measures required in support of planting by fumigating and poisoning for exterminating and keeping the relevant Sandalwood Lot(s) free from rabbits and other vermin.

#### 3.7.2 Ongoing Services

The Responsible Entity must supervise and manage all commercial silvicultural activities to be carried on by the relevant Grower on the relevant Sandalwood Lot(s) and must:

- (a) irrigate, cultivate, tend, cull, prune, fertilise, replant, spray, maintain and otherwise care for the Trees as and when required;
- (b) plant on the relevant Sandalwood Lot(s) such other trees as it may consider to be necessary to enable or encourage the growth of or to protect the Sandalwood seedlings or trees growing on the relevant Sandalwood Lot(s);
- (c) replant the relevant Sandalwood Lot(s) or part thereof with sufficient seedlings or trees if the Responsible Entity deems necessary, with the replanting fee to be paid by the Responsible Entity;
- (d) keep in good repair any access road or roads to the relevant Sandalwood Lot(s);



- (e) use all reasonable measures by fumigating and poisoning for exterminating and keeping the relevant Sandalwood Lot(s) free from infestation of rabbits and other vermin and to comply with the provisions of all statutes, regulations and by-laws and all amendments thereto with respect to the same, and any other statutes, rules, regulations and by-laws relating to or affecting the relevant Sandalwood Lot(s) or the Grower in respect thereof;
- (f) maintain in good repair and condition adequate fire-breaks in and about the relevant Sandalwood Lot(s);
- (g) maintain the relevant Sandalwood Lot(s) according to good silvicultural and forestry practices;
- (h) furnish to the relevant Grower reports as and when required by the Lease and Management Agreement and the Constitution;
- (i) carry out, or arrange to be carried out, the Harvest and Processing of the Trees in a manner which maximises the return for the relevant Grower; and
- (j) carry out any other obligation to be performed by the Responsible Entity pursuant to the terms of any relevant agreement entered into by the Responsible Entity for the sale of Forest Produce.

### 3.7.3 Selling and Marketing Services

The Responsible Entity must:

- (a) supervise and manage the negotiating and making, at the maximum practicable price available, sales of the Forest Yield, including entering into any sale agreement with a purchaser on such terms and conditions as the Responsible Entity considers appropriate, whether before or after the planting of the relevant Sandalwood Lot(s) occurs;
- (b) supervise and manage the writing of a marketing plan defining the current world Sandalwood market, identifying relevant markets, identifying the cultural particulars of those markets, strategising how to best access those markets, and setting the sales targets within each market;
- (c) supervise and manage the contracting of expert personnel to negotiate a sales agreement with major purchasers of Sandalwood, whether the negotiation would be in writing, by telephone, by facsimile or in person, and the payment of any applicable commissions;
- (d) maintain an international database of all potential buyers of Sandalwood in the years preceding the Harvest;

- (e) maintain contact with all potential buyers in order to keep them informed of the progress of the Sandalwood plantation and to give them due notice of the impending Harvest;
- (f) generate interest in Sandalwood as an end product so as to stimulate demand for the Forest Produce; and
- (g) educate manufacturers and retailers of Sandalwood products about the success and quality of the Western Australian grown Indian Sandalwood, so as to stimulate interest and demand for the Forest Produce.

### 3.8 Management Fees

The relevant Grower agrees to pay to the Responsible Entity, the following fees calculated on a sliding scale per Sandalwood Lot, as the fees for providing the Services:

### 3.9 Establishment Fee

Number of Sandalwood Lots Applied For by Applicant <sup>1</sup>	Establishment Fee (GST exclusive) \$	Establishment Fee (GST inclusive) \$
1	32,500	35,750

1. The Establishment Fee for each Sandalwood Lot acquired in excess of 1 Sandalwood Lot is \$33,000 (GST inclusive) per Sandalwood Lot.

### 3.10 Annual Option

Fee	1 Sandalwood Lot		Total
	Amount	GST	
Annual Fee 1	3,750	375	4,125
Annual Rent 2	750	75	825
Selling and Marketing Fee	5%	0.5%	5.5%

### 3.11 Deferred Option

Financial Year of Deferral	Percentage of Gross Proceeds of Sale to which the Responsible Entity is Entitled
Years 1 - 6	4%
Years 7 - 10	3%
Years 11 - 12	2%

1. The Annual Fee will increase each year at a fixed rate of 2% per annum throughout the Term. No Annual Fee will be charged in the expected years of Harvest.
2. The Annual Rent will increase each year at a fixed rate of 2% per annum throughout the Term.

### 3.12 Pre-Paid Option

Fee	Amount	1 Sandalwood Lot GST	Total
Pre-Paid Fee (Being the Annual Fee & Rent up to Year 12)	30,300	3,030	33,330
Selling and Marketing Fee	5%	0.5%	5.5%

### 3.13 Termination by relevant Grower

The relevant Grower may terminate the Lease and Management Agreement at any time after any of the following events:

- a breach of a substantial nature by the Responsible Entity or the Lessor, and if the breach is capable of remedy, failure by the Responsible Entity or the Lessor (as the case may be) to remedy the breach within 28 days of receiving written notice from the Grower to do so;
- the Responsible Entity or the Lessor committing an act of bankruptcy or going or being placed into liquidation or official management; and
- the Responsible Entity being removed as responsible entity of the Project under the Constitution.

### 3.14 Delegation

The Responsible Entity may, for the better performance of its obligations under the Lease and Management Agreement, employ agents, contractors, professional advisers and other consultants and these persons will not be under any fiduciary duty to account to the Grower by reason only of their appointment by the Responsible Entity. Generally, delegation by the Responsible Entity of any of its functions does not release it from liability under the Lease and Management Agreement.

### 3.15 Right to Produce

Subject to the relevant Grower complying with all of its obligations under the Lease and Management Agreement, the relevant Grower will at all times have full right, title and interest in the Forest Produce, or Collectable Produce (as the case may be) on the relevant Sandalwood Lot(s).

### 3.16 Grower's Recommendations

The relevant Grower may give written notice to the Responsible Entity setting out the opinion or recommendation of the relevant Grower with respect to any matter relating to the Services or any other matter which is the subject of the Lease and Management Agreement and the Responsible Entity must give due consideration to the recommendation and use its reasonable endeavours to carry out any recommendation provided that the Responsible Entity is not obliged to carry out any recommendation which is unreasonable, impracticable, contrary to any provision of the Lease and Management Agreement, the Constitution, the Corporations Act or any other law or is not in the interests of Growers, or if there has been a change in circumstances since the date of the Grower's notice.



### **3.17 Responsible Entity's Report**

The Responsible Entity must provide to the relevant Grower on an annual basis a report containing a review of the operations of the Project.

### **3.18 Sale of Sandalwood**

The relevant Grower is deemed to have irrevocably appointed the Responsible Entity as its exclusive agent for the purpose of making sales of Forest Produce.

### **3.19 Insurance**

The Responsible Entity is obliged to obtain (at its cost) public risk insurance in relation to the Project for an amount not less than \$20 million. The Responsible Entity must use its reasonable endeavours to arrange (at its cost) insurance of the Sandalwood Lots up to the end of the Establishment Period against destruction or damage to the Sandalwood Lots by fire. The Responsible Entity will apply the relevant Grower's Proportional Share of insurance proceeds obtained as the result of any successful claim made under a policy of insurance against any amounts due and payable by the relevant Grower before holding the balance for the Grower.

### **3.20 Termination by the Responsible Entity**

If the relevant Grower defaults in relation to the payment of money and the default continues for a period of 6 months or the relevant Grower commits a breach or default of one of the Grower's covenants (not in relation to the payment of money) and the default is not remedied within one month of the Grower receiving written notice of the default requiring it to be remedied, the Responsible Entity may terminate the Lease and Management Agreement.

The general section of the Agreement includes provisions to the following effect:

### **3.21 Assignment of Agreement**

The relevant Grower (if it has not defaulted under the Lease and Management Agreement) may assign or transfer its rights under the Lease and Management Agreement provided:

- (a) it can prove to the satisfaction of the Responsible Entity and the Lessor that the proposed assignee or transferee is a respectable, responsible and solvent person; and

- (b) the ingoing party enters into a deed with the Responsible Entity and the Lessor in a form approved by the Responsible Entity and the Lessor, pursuant to which the ingoing party agrees to duly perform and observe the covenants and agreements on the Grower's part contained in the Lease and Management Agreement.

### **3.22 Power of Attorney**

The relevant Grower irrevocably appoints the Responsible Entity as its attorney with full power in the name of the relevant Grower to do all such acts and execute all such deeds and documents which the Responsible Entity deems necessary for the purpose of complying with any duty or obligation imposed on the relevant Grower by the Lease and Management Agreement.

### **3.23 Authority**

The relevant Grower authorises the Responsible Entity to date the Lease and Management Agreement and to complete any blank spaces in the schedule.

### 3.24 Payment of Stamp Duty and Registration Fees

The Responsible Entity must pay all stamp duties and legal costs payable in respect of the Lease and Management Agreement. Each Grower must pay any fees, costs or expenses to register the relevant Lease, to lodge a caveat in respect of the Grower's interest in the leased area or to lodge or register any other document that may be related to these actions or documents.

### 3.25 Tax

Any tax or impost (including, without limitation, GST) payable in respect of the rent, the management fee, the annual fee, the incentive fee or any other payment or service provided pursuant to the terms of the Lease and Management Agreement, must be paid by the relevant Grower.

## 4. AGREEMENT FOR SUB-LEASE

In accordance with the Constitution, if there is no Plantation land available for allotment to a Grower before 30 June 2006, the Responsible Entity may still accept an Application where it believes it will be able to arrange entry into a sub-lease on behalf of the Grower in sufficient time to perform the Establishment Services within 12 months from the date of acceptance of that Application, and in those circumstances will enter into an Agreement for Sub-lease.

### 4.1 Parties

The parties to the Agreement for Sub-Lease are the Responsible Entity, the Lessor and the relevant Grower.

### 4.2 Enter into Sub-Lease

Under the Agreement for Sub-Lease, the Responsible Entity must enter into a sub-lease of a Sandalwood Lot as attorney for the Grower in sufficient time for the Responsible Entity to perform the Establishment Services under the Lease and Management Agreement within the period of 12 months from the date that application is accepted. The sub-lease must in all respects contain terms and conditions that are substantially the same as that sub-lease forming part of the Lease and Management Agreement.

### 4.3 Lease and Management Agreement

Immediately before the sub-lease is in force and effect, the Responsible Entity must be satisfied that:

- (a) the Head Lease is valid and subsisting;
- (b) the Lessor is entitled under the Head Lease to grant the sub-lease to the Grower;
- (c) all consents that may be required have been obtained; and
- (d) the Sandalwood Lots the subject of the sub-lease are not subject to any encumbrance or restriction detrimentally affecting the Grower's interest, other than those already disclosed in the PDS.

The Grower agrees to lease the Sandalwood Lots under the sub-lease as arranged by the Responsible Entity.

### 4.4 Term

The Agreement for Sub-Lease commences on the date of the agreement and continues until the earlier of the grant of the sub-lease to the Grower or termination of the Project.

## 4.5 Assignment

The Grower may only transfer, mortgage, assign or otherwise dispose of this Agreement or any of its rights or interests under it in accordance with the provisions of the Constitution.

## 5. PLANTATION MANAGEMENT AGREEMENT

Pursuant to this agreement, the Project Manager has agreed to perform all of the Services which are required to be undertaken by the Responsible Entity under the Lease and Management Agreement, although the Responsible Entity remains liable to the Growers for the manner in which the Services are performed.

In addition to providing the Services, the Project Manager must, amongst other things:

- (a) provide the Responsible Entity on or before 31 October and 30 April of each financial year after the end of the Establishment Period, a report containing a review of the timber operations on the Plantation during the relevant period;

- (b) make available to the Responsible Entity all of the books relating to the Project;
- (c) regularly monitor and whenever required by the Responsible Entity, report on all relevant key provisions of the Lease and Management Agreements;
- (d) provide the Responsible Entity with an appropriate action plan to address any issues identified in any expert's reports as requiring attention.

In consideration for the Project Manager performing the Services, the Responsible Entity shall pay the Project Manager the Establishment Fees and the Annual Management Fees. The Responsible Entity may also pay a bonus to the Project Manager if it successfully completes the Services.

## 6. HEAD LEASE

Pursuant to the Head Lease, TFS Properties (as the registered proprietor of the Plantation) has agreed to lease the Plantation to the Lessor and has consented to the Lessor sub-leasing Sandalwood Lots to Growers.





## 10.0 Glossary

In this Product Disclosure Statement the following words have the following meaning, unless the context requires otherwise:

**‘Agreement for Sub-Lease’** means the agreement for sub-lease in the form contained in the Schedule to the Constitution.

**‘Applicant’** means a person who has lodged an Application by completing an Application Form but has not become a Grower.

**‘Application’** means a signed application (in the form of the Application Form accompanying or attached to this PDS) for one or more Sandalwood Lots.

**‘Application Form’** means one of the forms attached to or accompanying this PDS and includes the Joint Venture Growers Application Form.

**‘Application Fund’** means the application fund formed under the Constitution and includes:

- (a) all Application Money;
- (b) the investments (if any) for the time being representing the sums referred to in paragraph (a); and
- (c) the proceeds of the sale, redemption, repayment or realisation of any of the investments referred to in this definition.

**‘Application Money’** means the total amount payable on Application for one or more Sandalwood Lots in accordance with an Application.

**‘ASIC’** means the Australian Securities and Investments Commission.

**‘Business Day’** means any day other than a Saturday, Sunday or public holiday in Western Australia.

**'Carbon Credits'** means the entitlement to any tradable credits or rights associated with the Trees (including any lost trees) resulting from the ability of the Trees (including any lost trees) to absorb greenhouse gases.

**'Cleaned Logs'** means the harvested Sandalwood with the sapwood removed to produce clear heartwood and the roots of the Sandalwood tree containing heartwood.

**'Collectable Produce'** means, in relation to a Grower who is an Electing Grower, that Grower's Proportional Share of the Forest Yield.

**'Commencement Date'** means, in relation to a Lease and Management Agreement, the date of commencement of that Lease and Management Agreement.

**'Compliance Plan'** means the compliance plan prepared by the Responsible Entity for the Project as required by the Corporations Act.

**'Constitution'** means the constitution of the Project.

**'Corporations Act'** means the Corporations Act (2001) for the time being in force together with the regulations of the Corporations Act (2001).

**'Costs of Harvesting and Processing'** means all costs incurred by the Manager in the Harvesting and Processing of the Sandalwood trees located on the Plantation and transporting them to store. These costs include interest on all amounts of money paid by the Manager towards Harvesting and Processing from the time when those costs are paid until the time that the Responsible Entity is reimbursed.

**'Directors'** means the directors of the Responsible Entity (as they are from time to time).

**'Electing Grower'** means a Grower who has made an election in accordance with the Lease and Management Agreement to collect the Collectable Produce on his or her Sandalwood Lot(s).

**'Establishment Period'** means, in relation to any Sandalwood Lot:

- (a) if a Grower's Application is accepted by the Responsible Entity on or before 30 June 2006, in circumstances where the Responsible Entity considers that the Establishment Services can be performed on or before 30 June 2006 and if the Establishment Services are performed on or before 30 June 2006 - the period from the Commencement Date to 30 June 2006;
- (b) if a Grower's Application is accepted by the Responsible Entity on or before 30 June 2006, in circumstances where the Responsible Entity considers that the Establishment Services cannot be performed on or before 30 June 2006 but can be performed within twelve months of the Commencement Date and if the Establishment Services are performed within twelve months of the Commencement Date - the period of twelve months from the Commencement Date; or
- (c) if a Grower's Application is accepted by the Responsible Entity before 30 June 2007, in circumstances where the Responsible Entity considers that the Establishment Services can be performed within twelve months of the Commencement Date and if the Establishment Services are performed within 12 months of the Commencement Date - the period of 12 months from the Commencement Date.

**'Establishment Fee'** means the fee described in Section 2.3 (a).

**'Establishment Services'** means the services to be provided by the Manager as specified in the Lease and Management Agreement.

**'Fees'** means any or all of the Fees and costs of participating in the Project payable by a Grower as the context requires.

**'Forest Produce'** means, in relation to a Grower who is an Non-Electing Grower, that Grower's Proportional Share of the Forest Yield.

**'Forest Yield'** means produce from the Plantation (expressed in cubic metres) after Harvesting and Processing and includes sapwood and any other saleable byproduct from processing.

**'Gross Proceeds of Sale'** means the gross amount received by the Manager from the sale of Forest Produce.

**'Gross Project Proceeds'** means the gross amount received by the Manager from the sale of Forest Yield (excluding all Collectable Produce).

**'Growers'** means all of the persons who are identified as 'growers' in any Lease and Management Agreement(s) entered into relating to the Project.

**'GST'** has the meaning contained in Section 195-1 of the A New Tax System (Goods and Services Tax) Act 1999.

**'Harvest'** and **'Harvesting'** means all of the steps required to cut down and pull the Sandalwood trees and prepare them for Processing, including but not limited to surveying, felling, extraction, loading and haulage .

**'Head Lease'** means the lease of the Plantation entered into between the Head Lessor and the Lessor.

**'Head Lessor'** means the owner of the land on which the Plantation is located or to be located.

**'Incentive Fee'** means the fee described in Section 2.3(g).

**'Indexed'** means that wherever the word 'Indexed' appears in reference to an amount of money, then this means that the amount of money referred to must be increased by two percent (2.0%) annually.

**'Joint Venture Growers' Application Form'** means the form attached to this PDS entitled 'Joint Venture Growers' Application Form'.

**'Lease'** means, in relation to a Grower, the sub-lease of the Leased Area granted by the Lessor to the Grower under the Lease and Management Agreement.

**'Lease and Management Agreement'** means one or more agreements comprising the Lease and the Management Agreement in the form contained in the Schedule to the Constitution or in such other form (such as electronic, hard copy or in a language other than English) as the Responsible Entity shall reasonably determine.

**'Leased Area'** means, in relation to a Grower, that specified part of the Plantation as identified in the Annexure to the relevant Lease and Management Agreement (comprising one or more Sandalwood Lots) to be sub-leased by the Grower from the Lessor pursuant to the terms of the relevant Lease and Management Agreement.



**'Lessor'** means TFS Leasing Pty Ltd (ACN 080 978 721), a subsidiary of TFS Corporation Ltd.

**'Manager'** means the Manager under the Lease and Management Agreement.

**'Management Fee'** means:

- (a) if the Fee is not Pre-Paid, the Fee calculated in accordance with the sliding scale in the Lease and Management Agreement (Indexed); or
- (b) if the Fee is Pre-Paid, the Fee calculated in accordance with the Pre-Paid scale in the Lease and Management Agreement which is payable to the Manager for performing the Ongoing Services.

**'Non-Electing Grower'** means a Grower who is not an Electing Grower;

**'Non-Electing Growers' Proportional Share'** means the proportion which the number of Sandalwood Lots sub-leased by the Non-Electing Grower bears to the total number of Sandalwood Lots sub-leased by all Non-Electing Growers.

**'Net Proceeds of Sale'** applies to a Non-Electing Grower and means the Gross Proceeds of Sale less:

- (a) the Grower's Proportional Share of the Costs of Harvesting and Processing; and
- (b) the Non-Electing Grower's Proportional Share of the Selling and Marketing Fee.







**‘Ongoing Services’** means the services to be provided by the Manager as specified in the Lease and Management Agreement.

**‘Plantation’** means the whole of the land leased by the Lessor to be divided into Sandalwood Lots on which Growers will conduct the commercial silvicultural enterprise as detailed and described in this PDS.

**‘Proceeds Fund’** means the proceeds fund formed under the Constitution and includes:

- (a) any gross proceeds of sale;
- (b) the investments (if any) for the time being representing the sums referred to in paragraph (a); and
- (c) the proceeds of the sale, redemption, repayment or realisation of an Interest.

**‘Process’** and **‘Processing’** means all of the steps required to process Harvested Sandalwood trees into a saleable form as cleaned logs and roots and butts and then to transport them to store.

**‘Product Disclosure Statement’** or **‘PDS’** means this document issued by the Responsible Entity offering Sandalwood Lots and includes any documents that are supplementary to or in replacement of this document.

**‘Project’** means the managed investment scheme known as the TFS Sandalwood Project 2006 (ARSN 117 134 611).

**‘Project Manager’** means Tropical Forestry Services Ltd (ACN 080 139 966).

**‘Project Property’** means the scheme property of any Scheme or the Project (as the case may be) as determined in accordance with the definition of scheme property in Section 9 of the Corporations Act.

**‘Proportional Interest’** means, in relation to:

- (a) each Applicant, the proportion which the Application Money paid by the Applicant bears to the total amount of Application Money paid by all Applicants;
- (b) each Grower in a Scheme, the proportion that the area of the Sandalwood Lots sub-leased by the relevant Grower bears to the total area of the Sandalwood Lots sub-leased by all Growers in the same Scheme; and
- (c) each Grower in a Project, the proportion that the area of the Sandalwood Lots sub-leased by the relevant Grower bears to the total area of the Sandalwood Lots sub-leased by all Growers in the same Project.

**‘Proportional Share’** means the proportion which the number of Sandalwood Lots sub-leased by the relevant Grower bears to the total number of Sandalwood Lots sub-leased by all relevant Growers for the time being.

**‘Responsible Entity’** means TFS Properties Ltd (ACN 093 330 977), the responsible entity of the Project operating under Australian Financial Services Licence number 241192.

**‘Sandalwood Lot’** means a specified area or areas comprising approximately 0.5 of a hectare forming part of the Plantation which is sub-leased or intended to be sub-leased to a Grower as more particularly delineated on a Plan and

**‘Sandalwood Lots’** means more than one Sandalwood Lot.

**‘Scheme’** refers to all those Sandalwood Lots for which the Establishment Period ends on the same date.

**‘Selling and Marketing Fee’** means a Fee of 5.5% of the Gross Proceeds of Sale (inclusive of GST) to be deducted by the Manager from the Gross Proceeds of Sale in consideration of the Manager performing the Selling and Marketing Services.

**‘Selling and Marketing Services’** means the services to be provided by the Manager as specified in the Lease and Management Agreement.

**‘Services’** means the Establishment Services, the Ongoing Services and the Selling and Marketing Services.

**‘Store’** means a covered secure area suitable for the storage of the Forest Yield within 20 kilometres of the Plantation.

**‘Target Net Proceeds of Sale’** means the targeted net proceeds of sale per Sandalwood Lot, being A\$600,000 (see Incentive Fee at Section 2.3 (g)).

**‘Term’** has the meaning given in the Lease and Management Agreement.

**‘TFS Group Companies’** means TFS Corporation Ltd (ACN 092 200 854) and its wholly-owned subsidiaries.

**‘Trees’** means the Sandalwood seedlings or trees from time to time growing on the Leased Area for silvicultural purposes.

**‘You’** means an Applicant, a Grower, an initial Grower, an Electing Grower or a Non-Electing Grower as the context requires.



# 11.0 Application Forms

## 11.1 How to Apply

Please complete and sign the relevant Application Form on the following pages:

- ❖ Joint Applicants (not Joint Venture Growers) must complete the 'Grower Application Form' and each Applicant must sign. Joint Applicants will be deemed to be holding their Sandalwood Lots as joint tenants.
- ❖ Joint Venture Applicants must complete the 'Joint Venture Growers' Application Form' and both the Initial and Secondary Growers must sign.
  - ❖ The Initial Grower is 'Joint Applicant No.1' and must complete the Application in respect of the Establishment Fee.
  - ❖ The Secondary Grower is 'Joint Applicant No.2' and must complete the Application in respect of the Pre-Paid Fee or leave section 2 & 3 blank for an Annual investment.

Please complete the Application Form in BLOCK LETTERS and sign on the relevant page.

### Section 1 - Details of Applicants

Section 1 must be completed:

All Applicants - please complete the name, address and contact details for each Applicant.

Companies or Corporations - if any Applicant is a company or corporation, you must include its ABN ('Australian Business Number') or ARBN ('Australian Registered Body Number') after its name.

Trusts or superannuation funds - if the Application is made by a trust or superannuation fund, the Application must be made by the trustee[s] of the trust or superannuation fund in their own name[s], and not in the name of the trust or fund itself. The Trust Deed should be provided with the Application Form.

### Section 2 - Sandalwood Lot(s) Applied for

Please complete the number of Sandalwood Lots in the Project for which you have applied. Then calculate the Establishment Fee in accordance with your Application.

### Section 2 and 3 (Joint Venture Growers) - Sandalwood Lot(s) Applied for and Payment Election

Please complete the number of Sandalwood Lots in the Project for which you have applied and calculate the Establishment Fee to be paid by Joint Venture Applicant No.1.

If your Joint Venture is in respect of a Pre-Paid investment, then please calculate the Pre-Paid Fee to be paid by Joint Venture Applicant No.2. If your Joint Venture is in respect of an Annual investment Sandalwood Lot, then Joint Applicant No.2 should leave this section blank.

### Section 3 - Payment Election

Tick the appropriate box as to whether you wish to pre-pay Lease and Management Fees or to pay annually. Applicants wishing to defer Lease and Management Fees on an annual basis should chose the annual payment election.

### Section 4 - Payment Method

If wish to pay your Establishment Fee with cash or cheque, please include payment with this Application Form. If you wish to pay via credit card or direct debit, please provide your credit card or bank details and the amount of the Establishment Fee to be deducted.







## Section 5 - Election to Collect and Market Produce

If you intend to collect your own Sandalwood timber from your Sandalwood Lot(s) on completion of Harvesting, please tick the box.

If you do not elect to collect and market your own Sandalwood, the Responsible Entity will pool your Sandalwood timber with the Sandalwood of other Non-Electing Growers, and market it on behalf of the Non-Electing Growers, and account to you for your share of the Net Proceeds of Sale.



# Grower Application Form

IMPORTANT: Read the Product Disclosure Statement to which this Application Form relates before signing this Application Form.  
This Application Form must not be issued, circulated or distributed unless attached to or accompanying the Product Disclosure Statement.

## Section 1 - Details of Applicant(s)

### Individual Applicant(s)

Principal Contact: Surname \_\_\_\_\_ Title Mr / Mrs / Ms / Dr

Given Names \_\_\_\_\_ Date of Birth \_\_\_\_\_

Occupation \_\_\_\_\_ Industry \_\_\_\_\_

Joint Applicant: Surname \_\_\_\_\_ Title Mr / Mrs / Ms / Dr

Given Names \_\_\_\_\_ Date of Birth \_\_\_\_\_

Note: All Joint Applicants will be registered as joint tenants, not as tenants in common.

### Corporate Applicant

Company Name \_\_\_\_\_ ABN \_\_\_\_\_

Principal Contact: Surname \_\_\_\_\_ Title Mr / Mrs / Ms / Dr

Given Names \_\_\_\_\_ Date of Birth \_\_\_\_\_

### Address & Contact Details

Street Address \_\_\_\_\_

Suburb \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_

Postal Address (as above? circle here) \_\_\_\_\_

Suburb \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_

Home Telephone \_\_\_\_\_ Work Telephone \_\_\_\_\_

Mobile Telephone \_\_\_\_\_ Facsimile Number \_\_\_\_\_

Email Address \_\_\_\_\_

## Section 2 - Sandalwood Lot(s) Applied for

The number of Sandalwood Lot(s) applied for is: \_\_\_\_\_

The total Establishment Fee (including GST) in respect of Sandalwood Lot(s) applied for is:

First Sandalwood Lot at Establishment Fee of \$35,750 \$ \_\_\_\_\_ +

All subsequent Sandalwood Lots at \$33,000 x No. of Lots \$ \_\_\_\_\_ =

Total Establishment Fee of \$ \_\_\_\_\_

## Section 3 - Payment Election

Pre-Pay Lease & Management Fees

Annually Pay Lease & Management Fees

## Section 4 - Payment Method

Pay Cash / Cheque  
[Please enclose cheque for Establishment Fees made payable to TFS Properties Ltd.]

Credit Card \_\_\_\_\_  
Cardholders Name \_\_\_\_\_ Amount \_\_\_\_\_  
Card Type (circle one) BC / MC / Visa Expiry \_\_\_\_\_  
Card Number \_\_\_\_\_

Direct Debit  
Account Name \_\_\_\_\_ BSB \_\_\_\_\_  
Account No. \_\_\_\_\_

Apply for Arwon Finance  
[Please ask your TFS representative or financial adviser for the Application Form]

## Section 5 - Elect to Collect and Market Produce

Elect to collect & market harvest produce from my/our Sandalwood Lot(s)

DO NOT elect to collect & market harvest produce from my/our Sandalwood Lot(s)



## Section 6 - Signing the Application Form

I/We hereby acknowledge and agree that:

- ❖ I/We have read the Product Disclosure Statement to which this Application Form relates.
- ❖ I/We agree to be bound by the terms of the Constitution and the Lease and Management Agreement (as amended) or the Agreement for Sub-Lease (as applicable).
- ❖ If signed under Power of Attorney, the Attorney states that no notice of revocation of the Power of Attorney under which this Application Form is signed has been received.
- ❖ That acceptance of this Application for Sandalwood Lots (in whole or in part) will be constituted by execution of the Lease and Management Agreement by the Responsible Entity on my/our behalf, without further communication of acceptance by me.
- ❖ I/we appoint Steinepreis Paganin as my/our agent solely for the purpose of preparing, executing and lodging a caveat at the Department of Land Information in respect of my/our interest in the Sandalwood Lots.
- ❖ I/we provide a power of attorney in favour of TFS Properties Ltd on the terms outlined below.

Date \_\_\_\_\_

Individuals: \_\_\_\_\_ Corporations:  
Executed in accordance with the Corporations Act

Signed \_\_\_\_\_ Director \_\_\_\_\_

Full Name \_\_\_\_\_ Full Name \_\_\_\_\_

Signed \_\_\_\_\_ Director/Secretary \_\_\_\_\_

Full Name \_\_\_\_\_ Full Name \_\_\_\_\_

## Power of Attorney

By signing this Application Form, I/we the person named in the 'Details of Applicants' section appoint TFS Properties Ltd (ACN 093 330 977) of 254 Adelaide Terrace, Perth, Western Australia ('Attorney') to be my/our attorney and in my/our name and in my/our behalf and as my/our act and deed to:

- ❖ enter into and execute on my/our behalf an Agreement for Sub-Lease or a Lease and Management Agreement in respect of the Sandalwood Lots I/we have applied for and which TFS Properties accepts pursuant to the Constitution ('Lease and Management Agreement'); and
- ❖ to do all things necessary or expedient to give effect to those documents including, but not limited to, making any variations, replacements and cancellations to the documents which the Attorney considers not contrary to the interests of the Applicant,

By granting this Power of Attorney, you do so on the following terms and conditions:

- a. you will ratify whatever the Attorney does in the exercise of the power granted by you;
- b. you will indemnify and keep indemnified the Attorney against all claims, demands, costs, damages, losses and expenses, howsoever arising consequent upon the exercise of the power granted by you except in the event of gross negligence, fraud or wilful default by the Attorney;
- c. the Attorney may, and where required will, stamp and register this instrument at the cost of the Applicant;
- d. any person or corporation dealing with the Attorney in good faith may accept a written statement signed by the Attorney to the effect that this Power of Attorney has not been revoked as conclusive evidence of that fact;
- e. this Power of Attorney is irrevocable until the expiration of the Project under the Constitution; and
- f. the authorisation in writing of any variations, replacements or cancellations referred to above may be by facsimile or any other form of written confirmation.

Adviser/Referrer please add details below

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# Joint Venture Growers' Application Form

IMPORTANT: Read the Product Disclosure Statement to which this Application Form relates before signing this Application Form. This Application Form must not be issued, circulated or distributed unless attached to or accompanying the Product Disclosure Statement. This form must only be completed by persons electing to enter into a Joint Venture in respect of their investment.

## Section 1 - Details of Applicants

### a. Joint Venture Applicant No.1

#### Individual Applicant

Principal Contact: Surname \_\_\_\_\_ Title Mr / Mrs / Ms / Dr \_\_\_\_\_  
Given Names \_\_\_\_\_ Date of Birth \_\_\_\_\_  
Occupation \_\_\_\_\_ Industry \_\_\_\_\_

#### Corporate Applicant

Company Name \_\_\_\_\_ ABN \_\_\_\_\_  
Principal Contact: Surname \_\_\_\_\_ Title Mr / Mrs / Ms / Dr \_\_\_\_\_  
Given Names \_\_\_\_\_ Date of Birth \_\_\_\_\_

#### Address & Contact Details

Street Address \_\_\_\_\_  
Suburb \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_  
Postal Address (as above? circle here) \_\_\_\_\_  
Suburb \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_  
Home Telephone \_\_\_\_\_ Work Telephone \_\_\_\_\_  
Mobile Telephone \_\_\_\_\_ Facsimile Number \_\_\_\_\_  
Email Address \_\_\_\_\_

### b. Joint Venture Applicant No. 2

#### Individual Applicant

Principal Contact: Surname \_\_\_\_\_ Title Mr / Mrs / Ms / Dr \_\_\_\_\_  
Given Names \_\_\_\_\_ Date of Birth \_\_\_\_\_  
Occupation \_\_\_\_\_ Industry \_\_\_\_\_

#### Corporate Applicant

Company Name \_\_\_\_\_ ABN \_\_\_\_\_  
Principal Contact: Surname \_\_\_\_\_ Title Mr / Mrs / Ms / Dr \_\_\_\_\_  
Given Names \_\_\_\_\_ Date of Birth \_\_\_\_\_

#### Address & Contact Details

Street Address \_\_\_\_\_  
Suburb \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_  
Postal Address (as above? circle here) \_\_\_\_\_  
Suburb \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_  
Home Telephone \_\_\_\_\_ Work Telephone \_\_\_\_\_  
Mobile Telephone \_\_\_\_\_ Facsimile Number \_\_\_\_\_  
Email Address \_\_\_\_\_





## Section 2 and 3 - Sandalwood Lot(s) Applied for and Payment Election

The number of Sandalwood Lot(s) applied for is: \_\_\_\_\_

The total Establishment Fee (including GST) to be paid by Joint Venture Applicant No.1 is:

First Sandalwood Lot at Establishment Fee of \$35,750 = \$ \_\_\_\_\_ +

All subsequent Sandalwood Lots at \$33,000 x No. of Lots = \$ \_\_\_\_\_ =

Total Establishment Fee of \$ \_\_\_\_\_

Complete this part below ONLY if the Joint Venture is in respect of a Pre-Paid investment:

The total Pre-Paid Fee (including GST) to be paid by Joint Venture Applicant No.2 is:

No. of Sandalwood Lots \_\_\_\_\_ x Pre-Paid Fee of \$33,330 = \$ \_\_\_\_\_

## Section 4 - Payment Method

Pay Cash / Cheque  
[Please enclose cheque for Establishment Fees made payable to TFS Properties Ltd.]

Credit Card \_\_\_\_\_  
Cardholders Name \_\_\_\_\_ Amount \_\_\_\_\_  
Card Type (circle one) BC / MC / Visa Expiry \_\_\_\_\_  
Card Number \_\_\_\_\_

Direct Debit  
Account Name \_\_\_\_\_ BSB \_\_\_\_\_  
Account No. \_\_\_\_\_

Apply for Arwon Finance  
[Please ask your TFS representative or financial adviser for the Application Form]

## Section 5 - Elect to Collect and Market Produce

Elect to collect & market harvest produce from my/our Sandalwood Lot(s)

DO NOT elect to collect & market harvest produce from my/our Sandalwood Lot(s)

## Section 6 - Signing the Application Form

I/We hereby acknowledge and agree that:

- ❖ I/We have read the Product Disclosure Statement to which this Application Form relates.
- ❖ I/We agree to be bound by the terms of the Constitution and the Lease and Management Agreement (as amended) or the Agreement for Sub-Lease (as applicable).
- ❖ If signed under Power of Attorney, the Attorney states that no notice of revocation of the Power of Attorney under which this Application Form is signed has been received.
- ❖ That acceptance of this application for Sandalwood Lots (in whole or in part) will be constituted by execution of the Lease and Management Agreement by the Responsible Entity on my/our behalf, without further communication of acceptance by me.
- ❖ I/we appoint Steinepreis Paganin as my/our agent solely for the purpose of preparing, executing and lodging a caveat at the Department of Land Information in respect of my/our interest in the Sandalwood Lots.
- ❖ I/we provide a power of attorney in favour of TFS Properties Limited on the terms outlined below.
- ❖ The terms headed 'Joint Venture Agreement' are accepted by me and govern the relationship with the other Joint Venture Grower.
- ❖ The percentage split of the Joint Venture Property for the purposes of the Joint Venture Agreement is on a 50%:50% basis.

Date \_\_\_\_\_

### Joint Venture Applicant No.1

Individuals: \_\_\_\_\_ Corporations: \_\_\_\_\_  
Executed in accordance with the Corporations Act

Signed \_\_\_\_\_ Director \_\_\_\_\_

Full Name \_\_\_\_\_ Full Name \_\_\_\_\_

Signed \_\_\_\_\_ Director/Secretary \_\_\_\_\_

Full Name \_\_\_\_\_ Full Name \_\_\_\_\_

### Joint Venture Applicant No.2

Individuals: \_\_\_\_\_ Corporations: \_\_\_\_\_  
Executed in accordance with the Corporations Act

Signed \_\_\_\_\_ Director \_\_\_\_\_

Full Name \_\_\_\_\_ Full Name \_\_\_\_\_

Signed \_\_\_\_\_ Director/Secretary \_\_\_\_\_

Full Name \_\_\_\_\_ Full Name \_\_\_\_\_

## Power of Attorney

By signing this Application Form, I/we the person named in the 'Details of Applicants' section appoint TFS Properties Ltd (ACN 093 330 977) of 254 Adelaide Terrace, Perth, Western Australia ('Attorney') to be my/our attorney and in my/our name and in my/our behalf and as my/our act and deed to:

- ❖ enter into and execute on my/our behalf an Agreement for Sub-Lease or a Lease and Management Agreement in respect of the Sandalwood Lots I/we have applied for and which TFS Properties accepts pursuant to the Constitution ('Lease and Management Agreement'); and
- ❖ to do all things necessary or expedient to give effect to those documents including, but not limited to, making any variations, replacements and cancellations to the documents which the Attorney considers not contrary to the interests of the Applicant,

By granting this Power of Attorney, you do so on the following terms and conditions:

- a. you will ratify whatever the Attorney does in the exercise of the power granted by you;
- b. you will indemnify and keep indemnified the Attorney against all claims, demands, costs, damages, losses and expenses, howsoever arising consequent upon the exercise of the power granted by you except in the event of gross negligence, fraud or wilful default by the Attorney;
- c. the Attorney may, and where required will, stamp and register this instrument at the cost of the Applicant;
- d. any person or corporation dealing with the Attorney in good faith may accept a written statement signed by the Attorney to the effect that this Power of Attorney has not been revoked as conclusive evidence of that fact;
- e. this Power of Attorney is irrevocable until the expiration of the Project under the Constitution; and
- f. the authorisation in writing of any variations, replacements or cancellations referred to above may be by facsimile or any other form of written confirmation.

Adviser/Referrer please add details below

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# Joint Venture Agreement

## Background

The Joint Venture Growers propose to establish an unincorporated joint venture among themselves to hold, cultivate and maintain the number of Sandalwood Lots under the 2006 TFS Sandalwood Project set out in this application form (Joint Venture).

## Terms and Conditions

1. The Joint Venture Growers agree to associate themselves with each other in a joint venture for the purposes specified above and in respect of the Joint Venture Property (defined in clause 2).
2. For the purpose of this agreement, Joint Venture Property means:
  - (a) all of the right, title and interest of each Joint Venture Grower in and to the Sandalwood Lots and any other assets which the Joint Venture may acquire from time to time, and all agreements entered into, in respect of the Joint Venture; and
  - (b) all saleable produce, whether in a processed or unprocessed state, and Carbon Credits produced from the Joint Venture.
3. The interests of the Joint Venture Growers in the Joint Venture and the Joint Venture Property and any losses realised from the Joint Venture will be as tenants in common in their respective proportions. Nothing contained in this agreement whether express or implied will be read and construed so as to constitute the Joint Venture Growers in the relationship of a partnership or trust.
4. The obligations and rights of the Joint Venture Growers are as follows:
  - (a) the first Joint Venture Grower (as described in this application) will be responsible for procuring the preparation and establishment of the Sandalwood Lots;
  - (b) the second Joint Venture Grower (as described in this application) will be responsible for procuring the ongoing provision of land and maintenance for the conduct of the Joint Venture;
  - (c) each joint venturer will be responsible for their respective percentage of any harvest supervision and incentive fees payable out of the sale proceeds; and
  - (d) each Joint Venture Grower indemnifies the other against any losses or liability exceeding its respective proportion by reason of any joint liability incurred or joint loss sustained in connection with any contract or arrangement entered into by the Joint Venture.
5. (a) In consideration for procuring the preparation and establishment of the Sandalwood Lots, the first Joint Venture Grower is entitled to the percentage of the Joint Venture Property set out in this form, and in particular, of all saleable produce, whether in a processed or unprocessed state, and Carbon Credits produced from the Sandalwood Lots.
  - (b) In consideration for procuring the ongoing provision of land and maintenance for the conduct of the Joint Venture, the second Joint Venture Grower is entitled to the percentage of the Joint Venture Property set out in this form, and in particular, of all saleable produce, whether in a processed or unprocessed state, and Carbon Credits produced from the Sandalwood Lots.
6. Each Joint Venture Grower agrees with the other Joint Venture Grower to be just and faithful in all transactions relating to the Joint Venture and to perform the obligations imposed on it under clause 4.
7. Each Joint Venture Grower may dispose of its interest in the Joint Venture by offering to sell all or part of its interest in the Joint Venture to the other for a price equal to the market value of that interest and on terms otherwise agreed by the parties.
8. The Joint Venture will terminate on the earlier of:
  - (a) the completion of the sale of the Joint Venture Property;
  - (b) the date on which a Joint Venture Grower sells its interest in the Joint Venture to the other Joint Venture Grower; and
  - (c) the date the Joint Venture terminates by mutual agreement by the parties.



# 12.0 Instalment Option

## 12.1 Letter to the Responsible Entity for Instalment Option

This letter should only be completed and returned to the Responsible Entity if the Applicant wishes to satisfy the Establishment Fee by the Instalment Option.

By signing and returning this letter to the Responsible Entity, I/we wish to satisfy the Establishment Fee by paying:

- (a) 20% of the Establishment Fee on Application (a cheque for this amount is attached to the Application Form); and
- (b) the remaining portion in equal monthly instalments to be paid within 12 months commencing on the 1st of the month after Application for the Sandalwood Lot(s) by me/us, (the 'Instalment Option').

I/We acknowledge that:

- (a) the Responsible Entity will review all Applications for the Instalment Option on an Application by Application basis and is under no obligation to accept all Applications for the Instalment Option;

- (b) if the Responsible Entity provisionally approves my/our Application for the Instalment Option it will forward to me a Terms Agreement which will set out the terms on which the Responsible Entity will allow the Establishment Fee to be satisfied by instalments;
- (c) the Instalment Option will not be granted to me/us unless the Terms Agreement is executed and returned to the Responsible Entity; and
- (d) if the application for the Instalment Option is rejected by the Responsible Entity, I/we must satisfy the full amount of the Establishment Fee owing to the Responsible Entity in respect of the Sandalwood Lot(s) applied for, or notify the Responsible Entity that I/we do not wish to proceed with my/our Application within 5 business days of receiving confirmation from the Responsible Entity that the Application for the Instalment Option has been rejected.

Signed \_\_\_\_\_  
Full Name \_\_\_\_\_





# Corporate Directory

## The Responsible Entity TFS Properties Ltd

(ACN 093 330 977)  
254 Adelaide Terrace  
Perth WA 6000  
Telephone: +61 8 9221 9466  
Facsimile: +61 8 9221 9477

## The Project Manager Tropical Forestry Services Ltd

(ACN 080 139 966)  
254 Adelaide Terrace  
Perth WA 6000  
Telephone: +61 8 9221 9466  
Facsimile: +61 8 9221 9477

## Solicitors to the Responsible Entity Steinepreis Paganin

Level 4, Next Building  
16 Milligan Street  
Perth WA 6000  
Telephone: +61 8 9321 4000  
Facsimile: +61 8 9321 4333

## Expert Forester Kimber Environment Services

29 Turnberry Way  
Pelican Point  
Bunbury WA 6230  
Telephone: +61 8 9724 1090  
Facsimile: +61 8 9724 1090

## Auditors of the Responsible Entity and Scheme Rix Levy Fowler

Level 1  
12 Kings Park Road  
West Perth WA 6005  
Telephone: +61 8 9226 4500  
Facsimile: +61 8 9226 4300

## Marketing Expert H.S. Anantha Padmanabha

Poorna Pragna Lay Out  
#31, AMBIKA, BSK 3rd Stage  
Bangalore-560085, INDIA  
Telephone: +91 80 679 2528  
Facsimile: +91 80 669 4634









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