



**TROPICAL FORESTRY SERVICES LIMITED
INDIAN SANDALWOOD**

**TFS GOLD CARD SANDALWOOD PROJECT 2003
SUPPLEMENTARY INFORMATION MEMORANDUM**

This is a Supplementary Information Memorandum, dated 25 February 2004, to the Information Memorandum issued by Tropical Forestry Services Limited (TFS) in respect of the invitation or offer made to “sophisticated investors” and “professional investors” for the TFS Gold Card Sandalwood Project 2003. The Information Memorandum invited investors to acquire or lease plantation areas of not less than 5 hectares and up to 50 hectares in the commercial Sandalwood plantations managed by the TFS group of companies.

The Information Memorandum provided that investors could either buy or lease a minimum of 5 hectares of land (**Sandalwood Lot**) on which to grow Indian Sandalwood with the investor having the option to pre-pay TFS in one lump sum or pay TFS annually. The investment is a long term investment of approximately 15 years.

TFS has determined that it will now offer the opportunity for “sophisticated investors” or “professional investors” to acquire or lease plantation areas of not less than **1 hectare (New Sandalwood Lot)**. The costs to participate in the project if an investor was to proceed on this basis are set out below.

Investors must read this Supplementary Information Memorandum in conjunction with the Information Memorandum to ensure that they have a full understanding of the investment opportunity being offered. Any terms which are not defined in this Supplementary Information Memorandum will have the meaning given to them in the Information Memorandum. Any queries should be directed to TFS on (08) 9226 1755.

Establishment Fee

The initial establishment cost for 1 New Sandalwood Lot of 1 hectare (inclusive of GST) is **\$42,900**. This is to be paid before 30th June 2004.

First Period Fee

The initial period fee for 1 New Sandalwood Lot (inclusive of GST) is **\$13,200**. This is to be paid before 30 September 2004.

Annual Management Fee

To meet on-going costs and expenses after establishment of the plantation, investors are to pay an Annual Management fee (inclusive of GST) to TFS of **\$5,610** per New Sandalwood Lot.

Rent

Investors who lease their New Sandalwood Lots pay an annual rent (inclusive of GST) of **\$1,320** per New Sandalwood Lot.

Cost Escalation

All Annual Management Fees and Rents will increase in accordance with the Australian Consumer Price Index. Annual Management Fees and Annual Rent will be invoiced on 1 September each year, and are to be paid by 30 September of that year.

Pre-Paid Option

An Option exists for an investor to Pre-Pay the Establishment Fee, First Period Fee, Annual Management Fee and Annual Rent. The cost to Pre-Pay one New Sandalwood Lot is **\$108,900** (inclusive of GST).

Harvest, Processing and Transport Costs

Each investor will pay the actual costs of harvesting and processing the timber on their New Sandalwood Lot. These costs will be deducted from the Gross Proceeds of Sale received from the sale of their timber. Present day costs of harvesting, processing and transporting the Product to store have been estimated at **\$7,000** per New Sandalwood Lot.

Marketing and Selling Costs

A fee of **5.5%** (inclusive of GST) of the Gross Proceeds of Sale received from the sale of Sandalwood will be deducted from those proceeds to covers TFS's costs of marketing and sale of the production derived from the New Sandalwood Lot.

Incentive Fee

As a performance incentive, TFS is entitled to receive a fee of **25%** of the amount by which the "Net Proceeds of Sale" exceeds the Target Net Proceeds of Sale \$853,051. Net Proceeds of Sale means the Gross Proceeds of Sale less all costs of harvesting, processing, transport, delivery, marketing and sales.

Insurance

TFS will take out public liability insurance for an amount of not less than \$5,000,000 on behalf of investors. If the costs of this insurance can be spread across a number of Sandalwood Lots (being 5 hectare lots offered under the Information Memorandum and the 1 hectare lots set out in this Supplementary Information Memorandum), investors will share the costs in proportion to the area of the New Sandalwood Lots. TFS can arrange insurance cover for New Sandalwood Lots and will advise investors of premiums upon request.

Cost Tables

The following tables illustrate establishment fees, first period fees, annual fees and rent payable depending upon whether those fees are prepaid or paid over the life of the Project and upon the number of New Sandalwood Lot(s) held. Figures for other fees and costs of participation in the Project are not included.

TABLE A

Grower pays fees and rent over the life of the Project. All fees shown below are inclusive of GST.

New Sandalwood Lots	Total Establishment Fees	Total First Period and Annual Fees*	Total Annual Rent*	Total Fees over Project life prior to harvest (GST inclusive)*
1	\$42,900	\$110,892.80	\$24,261.90	\$178,054.71

TABLE B

Grower prepays fees and rent in one instalment. All fees indicated below are GST inclusive.

New Sandalwood Lots	Total Establishment Fees	Total First Period and Annual Fees*	Total Annual Rent*	Total Fees over Project life (GST inclusive)*
1	\$42,900	\$49,500	\$16,500	\$108,900

Notes:

- Unless otherwise stated individual fees and rent include GST.
- Project life has been assumed to be 15 years. It is possible that the Project will last longer. If this is the case, then the total first period fees, annual fees and rent will be higher than indicated in Table A.
- * These amounts include an assumed annual “indexed” increase of 2.5% on the basis that this is the minimum increase set out in the Management Agreement. If the average CPI across the life of the Project exceeds 2.5% then total first period fees, annual fees and rent will be higher than indicated.
- Additional fees will be charged, as identified, for marketing and selling, and for harvesting, processing and transport.

Assumptions

The assumptions set out in Section 2.2 of the Information Memorandum apply to this new offer and must be read in conjunction with this Supplementary Information Memorandum. Investors need also to be aware that:

- There will be an average of approximately 400 Indian Sandalwood trees per New Sandalwood Lot at harvest.
- The total production of heartwood per tree to be harvested should be 30 kg.
- Total average heartwood production per New Sandalwood Lot of 12 tonnes (12,000kg).
- The present day costs of harvesting, processing and transport costs are estimated to be \$7,000 per New Sandalwood Lot (the reference to processing is confined to cutting the timber into cleaned logs and transporting them to market).

Finance

Finance is available from Arwon Finance Pty Ltd for approved investors who have chosen the pre-paid investment option for the pre-paid Lease and Management fees. Finance is not available from Arwon Finance Pty Ltd for the Establishment Fees.

Terms of finance will be available on application.

Other

If you have any queries on the Information Memorandum or this Supplementary Information Memorandum please contact the company on (08) 9226 1755.

Directory

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