



**TFS INDIAN SANDALWOOD  
INVESTMENT OPPORTUNITY 2003**



## **LETTER FROM THE CHAIRMAN**

Dear Investor

It is my pleasure, on behalf of my fellow Directors, to offer you an opportunity to become a Grower of Indian Sandalwood (*Santalum album*) in the TFS Sandalwood Project 2003, which is our fifth Indian Sandalwood plantation project.

Indian Sandalwood is one of the most valuable timbers in the world. The price of Indian Sandalwood has increased on average by over 25% per annum over the past 12 years and by 60% from January 2002 to January 2003. Although the recent price escalation cannot be expected to continue, the ongoing demand for sandalwood, together with a dwindling supply from natural stands worldwide, creates a favourable outlook for Growers in the TFS Sandalwood Project 2003.

The TFS Group is experienced in the establishment and management of Indian Sandalwood plantations and well placed to take advantage of the opportunities that currently exist.

The TFS Group currently manages Indian Sandalwood plantations in the Ord River Irrigation Area, covering approximately 350 hectares, making us the largest private manager and grower in the world. We have qualified professional staff with experience in all relevant disciplines and the resources to manage your interest in a professional and successful manner.

My fellow Directors and I are significant investors in the existing plantations managed by the TFS Group and we encourage you to join this Project.

We look forward to welcoming you as a Grower in the TFS Sandalwood Project 2003.

Yours faithfully

**FRANK CULLITY WILSON**

**CHAIRMAN**

## IMPORTANT NOTICES

This Product Disclosure Statement contains important information about investing in the TFS Sandalwood Project 2003 (ARSN 104 124 414). It should be read carefully and in its entirety. Before deciding whether to subscribe for an Interest in the TFS Sandalwood Project 2003 (ARSN 104 124 414) 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 Product Disclosure Statement you are unsure whether or not you should invest, you should consult your licensed financial adviser.

This Product Disclosure Statement is dated 16 April 2003. It is issued by the Responsible Entity, TFS Properties Ltd (ACN 093 330 977) and except for those parts of the Product Disclosure Statement consisting of, or based on reports from experts, the Responsible Entity is responsible for its contents.

Prospective Growers\* should be aware that:

- investment in the Project is of a medium to long term nature and is speculative;
- participation in the Project will be for a period of approximately 15 years after the Establishment Period;
- Interests in the Project are likely to be illiquid as it is unlikely that there will be a secondary market;
- Growers have no right to require that their Interests be repurchased by the Responsible Entity or any other person;
- the Project is subject to the risks of climate, pest and disease associated with agricultural activities and future markets for sandalwood; and
- Growers who do not prepay fees will have an obligation to make annual payments in accordance with the terms of the Lease and Management Agreement.

Investments in the TFS Sandalwood Project 2003 (ARSN 104 124 414) are speculative in nature. No person, firm or corporation associated with this Product Disclosure Statement guarantees, warrants or underwrites the performance of the Project or any particular investment return from this Product Disclosure Statement.

## ELECTRONIC PRODUCT DISCLOSURE STATEMENT

This Product Disclosure Statement will be issued on the following website: [www.tfsltd.com.au](http://www.tfsltd.com.au). Any person accessing the electronic version of this Product Disclosure Statement for the purpose of investing must be an Australian resident and must only access this Product Disclosure Statement 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 Product Disclosure Statement or accompanied by the complete and unaltered version of this Product Disclosure Statement.

## ADDITIONAL INFORMATION

Any further publicly available information about the Project can be obtained by contacting the Responsible Entity at its office (contact details are set out in the Corporate Directory) and requesting it. This service is available to you provided that you have already received a copy of this Product Disclosure Statement and you have not already invested in the Project.

Please note the following restrictions on the obligation to provide additional information:

- the provision of further information may be subject to a charge;
- the Responsible Entity is only obligated to provide you with information that has previously been made available to the public and which might reasonably be regarded as influencing a person's decision to invest in the Project. This will generally include information necessary for you to make an informed assessment of the management and financial condition of the Project and the investment performance of the Project; and
- the Responsible Entity is not obligated to provide further information if it is not reasonably practicable to provide it.

## COMPLAINT AND DISPUTE RESOLUTION

The complaint resolution process for the Project is detailed in Sections 1.7.5 and 1.7.6 of this Product Disclosure Statement.

## DEALERS LICENCE

The Responsible Entity has been granted a variation to its Dealers Licence (No: 202363) by the ASIC which authorises the Responsible Entity to act as responsible entity for the Project as well as other managed investment schemes.

## PHOTOGRAPHS

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

- \*A Grower is a person who has invested in the TFS Sandalwood Project 2003 (ARSN 104 124 414) ("the Project"). This includes you if you make the decision to invest in the Project and your Application is accepted.



## SECTION A

# 1. PROJECT AND FINANCIAL INFORMATION

1.1	What are we offering?.....	1
1.2	Financial information .....	2
1.3	About Sandalwood.....	7
1.4	Managing the Project.....	9
1.5	Project management .....	12
1.6	Taxation considerations .....	16
1.7	Other important information.....	18
1.8	Glossary .....	21
1.9	Corporate directory .....	24
1.10	Application Forms and Power of Attorney .....	25

**This section contains Project and Financial Information. It is dated 16 April 2003. This section is not by itself the Product Disclosure Statement. The Product Disclosure Statement is constituted by its cover page together with all of the following sections that must be read together:**

- 1. the Project and Financial Information section;**
- 2. the Expert Reports section; and**
- 3. the Summary of Material Agreements section.**

# 1. PROJECT AND FINANCIAL INFORMATION

## 1.1 WHAT ARE WE OFFERING?

We are offering you the opportunity to participate in the TFS Sandalwood Project 2003 (ARSN 104 124 414) which consists of up to 600 Interests relating to Sandalwood Lots of approximately 1/6th of a hectare each. The Responsible Entity reserves the right to accept over-subscriptions of up to a further 600 Interests.

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

- sub-leasing one or more identifiable portions of land in the Plantation (referred to as Sandalwood Lots) from TFS Leasing Pty Ltd. Your Sandalwood Lot(s) will be identified by a reference number on a plan of the Plantation;
- engaging the Responsible Entity to establish and maintain a sandalwood plantation on your Sandalwood Lot(s). The Project Manager, as the agent of the Responsible Entity, will manage your Sandalwood Lot(s) together with the Sandalwood Lots of other Growers as one commercially viable plantation;
- engaging the Responsible Entity to supervise the harvest of the timber on your Sandalwood Lot(s), the processing of the timber into cleaned logs and their transport. The harvest is expected to take place on a progressive basis from years 13 until 15 (although this may vary); and
- engaging the Responsible Entity to market and sell your timber for the maximum price obtainable, unless you elect to collect your timber for your own purposes.

The terms of these arrangements are contained in the Constitution, the Lease and Management Agreement and the Plantation Management Agreement, the material terms and conditions of which are summarised in Section 3.

The Responsible Entity is primarily responsible for establishing and managing the Plantation until Harvest (including planting seedlings and host trees, cultivating, tending, and otherwise caring for the trees, taking reasonable measures to keep the Plantation free from vermin and disease, and maintaining the irrigation channels). The Responsible Entity is required to establish and maintain the Plantation in accordance with good forestry practice, and to pay the costs and expenses of doing so.



## 1.2 FINANCIAL INFORMATION

### 1.2.1 Costs

The costs to participate in the Project are as follows:

#### 1.2.1.1 Establishment Fee

- The Establishment Fee per Sandalwood Lot depends upon the number of Sandalwood Lots applied for and is calculated in accordance with the following table:

Number of Sandalwood Lots Applied For by Applicant	Establishment Fee Per Sandalwood Lot (GST exclusive)	Establishment Fee Per Sandalwood Lot (GST inclusive)
1	\$8,500	\$9,350
2 - 4	\$8,250	\$9,075
5 - 9	\$8,000	\$8,800
10 -24	\$7,750	\$8,525
25 and above	\$7,000	\$7,700

- The total amount of the Establishment Fees for the total number of Sandalwood Lots applied for must be paid at the time of submitting an Application.

#### 1.2.1.2 Rent

- No rent is payable in respect of the Establishment Period.
- If you decide to invest in the Project when you complete the Application, you must decide whether to prepay rent or to pay it annually.
- If you wish to prepay expenditure for the Project, the rental component is \$3,000 per Sandalwood Lot (GST exclusive), payable at the time of lodging the Application.
- If you do not wish to prepay expenditure for the Project, the annual rental will be \$250 (Indexed) per Sandalwood Lot (GST exclusive). The rental will be payable annually in advance on or before 30 September during the Term commencing with the First Period.

#### 1.2.1.3 First Period Fee and Annual Fee

- The First Period Fee applies in respect of the First Period. The Annual Fee applies in respect of each subsequent year of the Term of the Project.

- If you decide to invest in the Project when you complete the Application, you must decide whether to prepay these fees or to pay them annually.

- If you wish to prepay expenditure for the Project, the First Period Fee and the Annual Fee component is \$9,000 per Sandalwood Lot (GST exclusive) payable at the time of lodging the Application.

- If you do not wish to prepay expenditure for the Project, the First Period Fee and the Annual Fee per Sandalwood Lot will depend upon the number of Sandalwood Lots applied for. The Fees are calculated in accordance with the following tables:

#### First Period Fee

Number of Sandalwood Lots Held by Grower	First Period Fee Per Sandalwood Lot (GST exclusive)	First Period Fee Per Sandalwood Lot (GST inclusive)
1	\$2,272.73	\$2,500
2 - 4	\$2,227.27	\$2,450
5 - 9	\$2,181.81	\$2,400
10 -24	\$2,045.45	\$2,250
25 and above	\$1,818.18	\$2,000

#### Annual Fee

Number of Sandalwood Lots Held by Grower	Annual Fee Per Sandalwood Lot (Indexed) (GST exclusive)	Annual Fee Per Sandalwood Lot (Indexed) (GST inclusive)
1	\$1,136.36	\$1,250
2 - 4	\$1,113.64	\$1,225
5 - 9	\$1,090.91	\$1,200
10 -24	\$1,045.45	\$1,150
25 and above	\$909.09	\$1,000

- The total of the fees will be payable annually in advance on or before 30 September during the Term commencing with the First Period.

#### 1.2.1.4 Selling and Marketing Fee

The Responsible Entity is to be paid a fee of 5% of the Gross Proceeds of Sale (which is exclusive of GST) to be deducted from the Gross Proceeds of Sale in consideration of it performing the Selling and Marketing Services.

#### **1.2.1.5 Other Costs**

Growers must pay the cost of taxes, stamp duty, government charges, transfer or registration fees, brokerage or other charges or costs payable in connection with any transaction or dealing with a Lease and Management Agreement, assignment, transmission application or other transaction or document on behalf of a Grower. This includes the cost of registering (\$75) and/or caveating (\$75) their Interest in their Sandalwood Lot(s) with the Department of Land Administration.

#### **1.2.1.6 Costs of Harvesting and Processing**

The Costs of Harvesting and Processing timber from the Sandalwood Lot(s) are payable by the Grower and will be deducted from the Gross Proceeds of Sale. (If a Grower elects to take his or her own timber, they must pay these costs before collecting his or her timber).

#### **1.2.1.7 Insurance**

The Responsible Entity will insure the Plantation against fire, lightning, aircraft, windstorm and malicious damage until the end of the Establishment Period. Thereafter, the Responsible Entity will use its best endeavours to arrange this type of insurance on behalf of a Grower, but only at the Grower's request and cost. The cost is estimated to be \$25.00 per Sandalwood Lot (exclusive of GST) for the First Period. An administration fee equal to 5% of the premium (exclusive of GST) will be charged for arranging the insurance for a Grower.

#### **1.2.1.8 Incentive Fee**

The Responsible Entity is to be paid a fee of 25% of the amount (if any) by which the actual Net Proceeds of Sale realised exceed Target Net Proceeds of Sale. This fee is exclusive of GST.

For Growers who elect to collect their own produce ("Electing Growers") an estimate will be taken of what actual Net Proceeds of Sale would have been, had the Electing Grower derived Net Proceeds of Sale.

The Target Net Proceeds of Sale is set at \$142,172 per Sandalwood Lot in accordance with the terms of the Lease and Management Agreement, details of which are set out in Section 3 of this Product Disclosure Statement. The Target Net Proceeds of Sale are not a forecast of returns expected from the Project and you should not rely on them as such. Nor should you rely on the Target Net Proceeds of Sale as giving an indication of the kinds of returns which you should expect from participation in the Project.

#### **1.2.1.9 Indexed**

The rent and those fees that are referred to as "Indexed" will be increased annually by the higher of 2.5% or the increase in the Consumer Price Index (CPI).





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 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:

Sandalwood Lots	Total Establishment Fees	Total First Period and Annual Fees *	Total Annual Rent *	Total Fees over Project life (GST exclusive) *
1	\$8,500	\$21,039	\$4,483	\$34,022
2	\$16,500	\$41,243	\$8,966	\$66,709
5	\$40,000	\$101,020	\$22,415	\$163,435
10	\$77,500	\$193,161	\$44,830	\$315,491
25	\$175,000	\$420,881	\$112,075	\$707,956

**TABLE B**

Grower prepaays Fees and rent in one instalment:

Sandalwood Lots	Total Establishment Fees	Total Prepaid Fees	Total Fees over Project life (GST exclusive)	Total Fees over Project life (GST inclusive)
1	\$8,500	\$12,000	\$20,500	\$22,550
2	\$16,500	\$24,000	\$40,500	\$44,550
5	\$40,000	\$60,000	\$100,000	\$110,000
10	\$77,500	\$120,000	\$197,500	\$217,250
25	\$175,000	\$300,000	\$475,000	\$522,500

**Note:**

- Unless otherwise stated individual Fees and rent exclude 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 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 Lease and 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.

**1.2.2 Investment Returns**

Set out in this section are the relevant assumptions that are considered will impact on your investment return if you participate in the Project. The Directors consider that because of the market fluctuations in relation to various essential components necessary to create forecast returns combined with the Project’s approximate length of 15 years, that pursuant to ASIC Policy Statement 170 they may not have reasonable grounds for providing forecast returns in this Product Disclosure Statement for the Project. Prospective Growers should make their own assessment of the likely returns from the Project based on the information set out in this Product Disclosure Statement and based upon advice from their financial advisers.

**1.2.2.1 Assumptions**

The assumptions set out below are subject to significant uncertainties, many of which are outside the control of the Responsible Entity and its Directors. Events and outcomes could differ in quantum and timing from the assumptions with material consequential impact on the investment return. All prospective Growers should make their own assessment of the Project based on the information set out in this Product Disclosure Statement and based upon advice from their financial adviser.

The assumptions in this section include best estimate assumptions relating to future events that the Directors expect to occur and actions that management expects to take and management actions

that may not necessarily occur as anticipated. The summary of key assumptions included below should be read in conjunction with the risk factors described in Section 1.2.2.3.

#### **General Assumptions**

##### ***Best Estimate:***

- the existing competitive or regulatory environments of the Responsible Entity's 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 economical conditions with respect to the sandalwood forestry industries and the Australian economy.

#### **Specific Yield Assumptions**

##### ***Best Estimate:***

- there should be an average of approximately 69 sandalwood trees per Sandalwood Lot to be harvested. (This assumption has been verified by Peter Kimber in his report at Section 2.1);
- the total production of heartwood per sandalwood tree to be harvested should be 30kgs. (This assumption has been verified by Peter Kimber in his report at Section 2.1);
- total average heartwood production per Sandalwood Lot should be 2.07 tonnes (2,070 kgs). (This assumption has been verified by Peter Kimber in his report at Section 2.1); and
- the sandalwood trees should be harvested progressively from the commencement of year 13 in accordance with the following ratios: year 13 - 15 %; year 14 - 30%; year 15 - 55%. (This assumption has been verified by Peter Kimber in his report at Section 2.1).

#### **Other Important Assumptions**

##### ***Price***

As at 31 January 2003, the international market price for Indian Sandalwood as cleaned logs was US\$35,191 per tonne (US\$35.19 per kg) (This assumption has been verified by Anantha Padmanabha in his report at Section 2.2). More detailed information concerning historic price trends is set out in the Expert Marketing Report at Section 2.2.

Potential investors must note that the Project's life will be approximately 15 years, and that the price of cleaned logs will be affected by market fluctuations in that time. Forward looking assumptions about the price at the estimated times of Harvest have not been included because of uncertainties associated with accurately forecasting the price across those times.

##### ***Harvesting***

The present day Costs of Harvesting and Processing the Indian Sandalwood were estimated by the Expert Forester to be \$1,167 per Sandalwood Lot. (The reference to Processing is confined to cutting the timber into cleaned logs and transporting them to store. Please refer to the Expert Forester's Report at Section 2.1 for further information).

##### ***Exchange Rate***

The international market price for cleaned logs is determined in US dollars. The A\$:US\$ exchange rate on 3 April 2003 was A\$1.00 = US\$0.6048. It is not reasonable to forecast the A\$:US\$ exchange rate in the future as this is subject to fluctuations.

##### ***Consumer Price Index***

If you elect to make annual payments for rent and those Fees in respect of the Project that are referred to as "Indexed", those Fees will be indexed annually to the higher of 2.5% or the increase in the CPI. It is not reasonable to forecast the increase in the CPI on an annual basis or over the term of the Project.

##### ***Additional Returns***

Additional returns may be generated from the impact of "Carbon Credits" and the possibility of proceeds generated from the sale of the host plant/tree, or from the sale of sapwood. It is not possible to accurately estimate what these returns (if any) may be.

#### **1.2.2.2 Recovery of GST**

If Growers are registered for GST purposes then any GST paid in relation to the Project can be recouped within the year it is paid.

#### **1.2.2.3 Risks**

An investment in this Project should be viewed as speculative and long term. It may be affected adversely by unforeseen events and events beyond the control of the Responsible Entity. The risks of the Project include, but are not limited to, the following:

- the plantation will not be completely harvested until 15 years or more, after planting. During that time, political, economic or social events may occur which have a significant impact upon the investment;

- new technologies may be introduced which create a substitute for Indian Sandalwood or render the method of cultivation obsolete;
- the sale price for Indian Sandalwood may be depressed due to oversupply, or poor quality or a lack of demand;
- the proceeds of Harvest in Australian dollars are reduced due to unfavourable exchange rate variations at the time of Harvest;
- the Responsible Entity does not properly perform its obligations;
- the Product Ruling that has been applied for from the Australian Taxation Office may not be favourable to investors. Amendments to taxation legislation may adversely affect the tax treatment of payment of Fees, or impose significant taxes in relation to the investment. The Product Ruling may be rendered inapplicable if the investment is not undertaken in accordance with the “Arrangements” section of the Product Ruling;
- risks associated with primary production generally such as pests, diseases and natural disasters such as storms, fires and cyclones;
- spray drift from neighbouring properties adversely affecting the sandalwood trees or their hosts;
- the number of sandalwood trees which survive through to Harvest are less than 69 per Sandalwood Lot;
- the amount of heartwood production is less than 2.07 tonne (2,070 kgs) per Sandalwood Lot;
- the oil yield from the heartwood is lower than expected hence reducing the value of the heartwood timber;
- the oil quality from the heartwood is lower than expected hence reducing the value of the heartwood timber;
- at the date of this offer there are only a few medium sized sandalwood plantations under cultivation in Australia. In this respect it is a pioneering project for commercial sandalwood plantation forestry and is subject to agricultural risks that may not be apparent at the date of this Product Disclosure Statement; and
- other usual risks of agricultural projects.

#### 1.2.2.4 Opportunities

Against the risks identified in Section 1.2.2.3 must be weighed the opportunities. These include:

- potential for strong financial returns;
- the opportunity for better investment returns due to:
  - the sale prices of Indian Sandalwood increasing from present day values;
  - the heartwood yield per Sandalwood Lot exceeding 2.07 tonne; and
  - the proceeds of Harvest in Australian dollars increasing due to favourable exchange rate variations at the time of Harvest;
- participating in a sandalwood plantation in a tax effective manner;
- commercial advantages of pooling the timber from your Sandalwood Lot(s) with that of other Growers to reduce risk and obtain the best selling price;
- opportunities to add value to the raw timber, for example, by obtaining value from the sapwood contained in the timber or by producing oil and other value added products from the timber;
- opportunity to be a market leader with a product that is experiencing high demand and rapidly declining global resources;
- the opportunity to obtain a premium price for the Indian Sandalwood due to it being cultivated from a sustainable resource rather than dwindling native stands; and
- participating in a Project that has many environmental benefits as well as commercial benefits. These benefits include the establishment of deep-rooted vegetation which will assist in lowering the water table thus counteracting potential salinity problems, providing a habitat for wildlife (particularly birds) and the replacement of agricultural/horticultural crops which have a high use of pesticides, some of which can enter local water courses.

## 1.3 ABOUT SANDALWOOD

### 1.3.1 Past and Present

The mystique and romance, and the use of sandalwood in every day life, has been part of Asian, Pacific and Indian cultures for over 2000 years. There are references to sandalwood in Indian mythology, folklore, and ancient scriptures dating back beyond the birth of Christ (BC). It is mentioned in Buddhist Jataka stories of the 7th century BC and in ancient scriptures – Dhammapada, Anguttara, Vinayapitaka (400 - 300BC), Milinda Pahana (200BC) and Patanjali Mahabashya (100BC).

The oil extracted from the heartwood of the sandalwood tree is among the oldest known perfumery materials. In the early literature, there are constant references to its use as a perfume and in personal hygiene.

Sandalwood oil has also been used for thousands of years as a medicine and an embalming tool. Contemporary and historical reports indicate that there may be a significant potential use for sandalwood oil in the pharmaceutical industry.

In recent times, western cultures have also placed great value on sandalwood oil for perfume, soaps, cosmetics and aromatherapy, with famous French and Italian perfume houses accounting for a steady demand.

The sandalwood timber is also highly sought after for woodcarvings and for incense sticks burned during religious ceremonies throughout India, China, Japan, Indonesia and the greater Asian region. It is used to make coffins, producing a sweetly scented smoke during cremation that is thought to carry the departed's spirit away and is said to demonstrate extreme wealth and social position.

There are 16 species of sandalwood. Five of these occur in Australia. The most widespread of which is *Santalum spicatum*, which is native to Western Australia and has generated significant export revenue for the State.

*Santalum album* which is commonly known as Indian Sandalwood and the species that will be grown under this Project is the most valuable of all of the sandalwood species due to the high oil content of its heartwood (on average three times as much oil as *Santalum spicatum*) and the high quality of its oil. The quality of sandalwood oil is determined by its santalol content. High quality Indian Sandalwood oil contains over 90% santalol, whilst *Santalum spicatum* contains only 15% santalol. It is for this reason that the major perfume houses prefer the oil of the Indian Sandalwood and are prepared to pay a premium for it.

Of even more significance, however, is the period of time required before Harvest. The native Western Australian sandalwood can take up to 100 years to reach maturity and produce merchantable amounts of oil, whereas the Indian Sandalwood grown in a tropical environment and on fully irrigated and fertile soils is expected to approach commercial maturity in approximately 12 years.

The Western Australian Department of Conservation and Land Management (CALM, and formerly the Forests Department) has been researching the growing of Indian Sandalwood in the Ord River Irrigation Area (ORIA) since the mid 1980s. CALM has made significant discoveries in a variety of areas, including propagation of seedlings, selection of host species, density of planting and plantation management practices all of which have been integrated into the plantation establishment and management practices of the Responsible Entity. In addition, commercial operators have been establishing Indian Sandalwood plantations in the ORIA since 1997.

### 1.3.2 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.

Although sandalwood can be used for woodcarving and for various cultural and religious uses, the perfumery and cosmetic industries ensure that sandalwood commands a particularly high price through the demand for its oil. Indian Sandalwood, because of its high oil content and quality, is the most highly sought after.

It is estimated that greater than 90% of all Indian Sandalwood harvested currently is used in the production of sandalwood oil, which ultimately finds its way into perfumes and cosmetics.

### 1.3.3 Supply

The principal sources of supply of sandalwood are India, Indonesia and Western Australia, with India accounting for over 75% of total annual world production.

Sandalwood has been exported from Western Australia for over 150 years and has been a major export earner for the State. In the 1920's, due to over-Harvesting, the Western Australian government legislated that anyone who wished to pull sandalwood, must be licensed. It was only in 1996 that this legislation was amended to exempt sandalwood grown on private plantations.

Sandalwood in India and Indonesia is supplied almost exclusively from natural stands. The high value of this resource has led to over-exploitation and widespread illegal cutting and smuggling. These activities have led to a dwindling of supply. As a result, India and Indonesia have now imposed strict controls on sandalwood ownership, Harvesting and export such that the remaining production is only available to meet domestic requirements.

### 1.3.4 Price

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

As at 31 January 2003, the international market price for Indian Sandalwood as cleaned logs, sourced from India, was US\$35,191 per tonne (US\$35.19 per kg). Over the course of the past decade, the price has increased by on average over 25% per annum due to short supply of raw material and higher demand.



## 1.4 MANAGING THE PROJECT

The Project Manager will manage the Project as the contractor for the Responsible Entity. The Project Manager:

- is an experienced manager of Indian Sandalwood plantations;
- currently manages sandalwood plantations in the Ord River Irrigation Area (ORIA) covering a total area of 350 hectares; and
- has qualified professional staff with experience in all relevant disciplines.

### 1.4.1 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 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.

### 1.4.2 Where will the Plantation be located?

The Plantation will be located at King Location 385 at Kununurra in the Kimberley region of Western Australia. This land is owned by the Responsible Entity.

### 1.4.3 Why the Ord River Irrigation Area?

Indian Sandalwood has been grown in the ORIA since the mid 1980's when trial plots were established by the then Forests Department (now incorporated into the Department of Conservation and Land Management, or CALM). Early trials showed considerable promise and a more intensive research program was instituted. This research has focused on nursery techniques, the clarification of host species requirements, irrigation methodology and the planting

regime. The research program has since been scaled up into fully operational trials which have refined knowledge about the soil and site requirements of the species, suitable host species and dry-season irrigation. Tests have shown that Indian Sandalwood trees grown in these circumstances are producing heartwood at 5 years of age and so long as current growth rates are sustained, trees could be Harvestable at age 12.

The ORIA is ideal for the growing of Indian Sandalwood because of the abundance of readily available water 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*).

### 1.4.4 Planting

The sandalwood tree is a semi-parasitic tree that 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.

The hosts selected by the Responsible Entity are broadly classified by their period of association with the sandalwood trees. The first host to be introduced is in the nursery into the pots in which sandalwood seedlings are growing. In the Plantation, short term hosts, which succumb to parasitism by the sandalwood trees within 3 to 6 years are planted within the same rows as the sandalwood seedlings and are sited quite close to them. The long term hosts are those that must support the sandalwood trees through the rest of their life in the Plantation. Both short term and long term hosts are leguminous trees that are favoured due to their nitrogen fixing qualities.

The Responsible Entity has selected those hosts which it considers to be the best available to contribute to the development of the sandalwood. The potential value of the host trees has not been a consideration in their selection and potential proceeds from the sale of timber from the host species have not been included in the assumptions contained in this Product Disclosure Statement.

Planting during the Establishment Period of approximately three months will take place as follows:

- sandalwood seedlings will be established in rows approximately 7.2 metres apart at a spacing within the rows to provide an average of 69 trees per Sandalwood Lot at Harvest time;
- short term hosts will be planted in the same rows, between the sandalwood seedlings;
- long term hosts will be planted in rows approximately 7.2 metres apart, alternating with the rows of sandalwood and short term hosts;
- the ratio of short term hosts to sandalwood seedlings will be approximately 2:1; and
- the ratio of long term hosts to sandalwood will be approximately 1:1.

Newly planted sandalwood seedlings and the more delicate host seedlings will be hand watered within approximately two hours of being planted and then furrow irrigated within 24 hours.

Fertiliser will not be applied initially, due to its encouraging weed growth. However, an application of nitrogen, phosphate, potash and trace elements may be made in the fourth and eighth year after planting if the performance of the plantation is not up to the expected standard.

#### 1.4.5 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.

#### 1.4.6 Damage to the Plantation or trees on Sandalwood Lots

If the trees on a Sandalwood Lot are destroyed, the Grower's 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 rent will not vary). The proportion or area destroyed will be determined by an independent expert appointed by the Responsible Entity.

If a Grower has chosen to insure the trees on the Sandalwood Lot against damage or destruction, the proceeds of any claims made under the insurance policy will be paid to the Grower, after deducting or paying all costs, fees, expenses and any other money payable by the Grower to the Responsible Entity or any other person.

#### 1.4.7 Harvesting

The Responsible Entity proposes that Harvest of the sandalwood will commence in year 13 and occur progressively until the expiration of the Scheme. 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 Scheme. The conclusion of Harvest could be earlier or later than year 15. In any event Harvesting and Processing must be completed before 31 December in year 17. Returns to Non-Electing Growers will be paid progressively as Gross Proceeds of Sale are received after each Harvest.

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. Because the heartwood is in the butt and roots of the sandalwood tree, 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.

#### 1.4.8 Marketing and Sale

The timber from the Harvest will be differentiated depending on quality and size and sold for the highest possible price. Presently, sandalwood processed prior to export is sold as uncleaned logs, cleaned logs, butts and roots, dead timber pieces, chips, powder and shavings.

At the time of Harvest, the Responsible Entity will determine the most profitable and appropriate markets for the product. However it is expected that the wood will be sold as cleaned logs. Any proceeds of sale from the host trees will be distributed to the Growers after deduction of the Costs of Harvesting and Processing and the Selling and Marketing Fee.

An agreement with Mt Romance Australia Pty Ltd has been entered into for the promotion, marketing and sale of Indian Sandalwood from plantations managed by the Project Manager. The Project Manager will manage the Project as the contractor of the Responsible Entity. That agreement also provides for the possibility of future processing of cleaned logs into sandalwood oil and other value-added products.

#### 1.4.9 Election to Collect Timber

A Grower may elect on the Application Form to collect his or her timber. If this is the case, the Grower will not benefit from the economies of scale which may be achieved from pooling the timber from the whole of the Plantation and selling the timber on a total Scheme basis.

When a Grower elects to collect his or her own timber:

- the Responsible Entity will advise the Grower in writing of the time and place at which it can be collected;
- the Grower will be required to pay his or her share of the Costs of Harvesting and Processing on (or before) collecting the timber;
- the Grower will be responsible for his or her own transport and marketing costs;
- the Grower will be required to pay any outstanding Fees and rent; and
- the Grower will also be required to pay an estimate of his or her 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.

#### 1.4.10 Greenhouse Gases and Carbon Credits

Climatic change, with its often harmful and dramatic effects is of concern worldwide. International scientists consider that a major cause of climatic change is the emission of greenhouse gases. Forests absorb carbon dioxide in the atmosphere through photosynthesis as the trees grow. As a result, they help reduce the net emission of greenhouse gases. The Intergovernmental Panel on Climate Change predicts that forestry has the potential to offset approximately 15 per cent of the world's greenhouse gas emissions.

Australia and other industrialised nations have given varying levels of support to reduce greenhouse gas emissions as part of the *United Nations Framework Convention on Climate Change* and its *Kyoto Protocol*. The Protocol suggests that Carbon Credits which accrue to the owners of tree plantations may be able to be sold to countries and large corporations with extensive greenhouse gas emission liabilities, to enable them to lower or offset their relative liabilities.

Mechanisms are being considered whereby Carbon Credits can be traded, although at present, the exact nature of them is not clear and the timeframe for their implementation remains open. Accordingly, Carbon Credits are not factored into the assumptions for the calculation of investment returns for this Project. Under the Lease and Management Agreement any Carbon Credits will accrue to the benefit of the Grower (50%) and the Responsible Entity (50%). The Responsible Entity will consult Growers regarding opportunities to take advantage of Carbon Credits when they arise.

#### 1.4.11 Insurance

The Responsible Entity will insure the Plantation against fire, lightning, aircraft, windstorm and malicious damage at its cost until the end of the Establishment Period. In the event of a loss during this period, the Responsible Entity will make a claim and use any insurance proceeds received to replant the destroyed area.

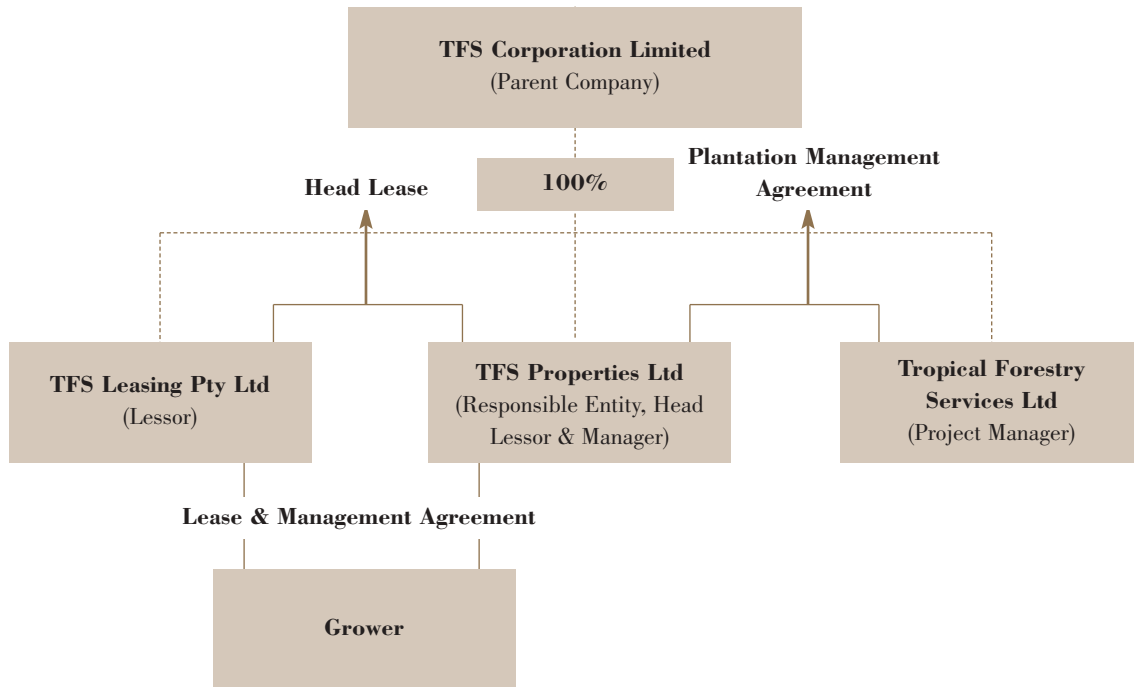
Thereafter, the Responsible Entity will use its best endeavours to arrange insurance against fire, lightning, aircraft, windstorm and malicious damage to the Plantation at a Grower's cost and expense. The Responsible Entity will charge an administration fee equal to 5% of the premium (exclusive of GST). The proceeds of any successful claims made under the insurance policies will be paid to the Grower, after deducting or paying all costs, fees, expenses and any other money payable by the Grower to the Responsible Entity or any other person.

In addition, the Responsible Entity will take out public liability insurance for an amount of not less than \$5,000,000 for the duration of the Lease and Management Agreements. The Responsible Entity will pay those premiums.



## 1.5 PROJECT MANAGEMENT

### 1.5.1 Project Structure



### 1.5.2 Directors

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

The Directors as at the date of this Product Disclosure Statement are:

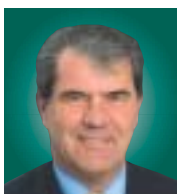
*Frank Cullity Wilson*  
*Executive Chairman*

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 groups.



*Graeme Eric Scott*  
*Executive Director*

Mr Scott is a practising chartered accountant of over 40 years' standing and the principal of Graeme Scott & Co Pty Ltd, a chartered accounting firm. Before establishing this firm in 1990 Mr Scott was a partner of Ernst & Young and its predecessor firms for 17 years. He is a trustee of a public charitable trust, a director of a number of companies, both public and private, and a former director of the Heytesbury group which had interests in the building, construction, agriculture, theatre and wine industries.



*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 corporate and commercial law. Mr Atkinson is experienced in the area of managed investment schemes having advised Vasse Felix and Palandri Wines in relation to their legal, compliance and other obligations.



*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 (Western Australia) of Boral Steel and later Boral Cyclone over a period of 18 years. Mr Eacott is actively involved in the community.

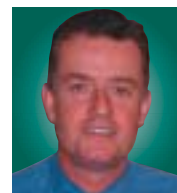
*Blaine David Kidd*  
*Non-Executive Director*

Mr Kidd is a Certified Practising Accountant and is the principal of BDK, an accounting firm specialising in small to medium sized business clients. Mr Kidd has experience in the agricultural, fishing, property development, textile manufacturing, and product marketing industries. Mr Kidd became a director in 2002.



*Julius Luke Matthys*  
*Non-Executive Director*

Mr Matthys is the Vice President of global marketing (iron ore division) for BHP Billiton. Mr Matthys holds a degree in commerce from the University of Western Australia and currently resides in Singapore. Mr Matthys became a director in 2002.



### 1.5.3 Management

The Responsible Entity's management team comprises persons experienced in corporate, financial and agricultural matters. In particular, the management team comprises persons experienced in the growing of sandalwood, such persons having combined experience of over 30 years.

### 1.5.4 Compliance Committee

The Responsible Entity 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.

#### 1.5.5 Compliance Plan

The Responsible Entity 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.

#### 1.5.6 Expert Forester

The Responsible Entity has appointed Peter Kimber of Kimber Environment Services Pty Ltd as the Expert Forester. The Expert Forester has a critical role in this Project, overseeing the Project from a technical point of view for and on behalf of the Growers.

The Expert Forester will monitor the performance of the Responsible Entity and the Project Manager and provide regular reports to the Growers.

#### 1.5.7 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 the West Australian 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.

A management plan is currently being prepared by the Responsible Entity and will detail the work required for site preparation, seedling propagation, planting, fire control, silviculture, nutrition, Harvesting and environmental management. The management plan will also specify the frequency of independent assessment of and reporting on all technical aspects of the Project.

The management plan will reflect two phases in the operation of the Plantation – the establishment phase and the maintenance phase. The establishment phase is intense and more costly than the recurring phases. The fee structure reflects the high start up costs of the Scheme in the establishment phase.

Activities in the establishment phase include:

- preparing the land for the sandalwood seedlings and the establishment hosts;
- raising the sandalwood seedlings and the hosts;
- planting of the sandalwood seedlings and the establishment hosts; and
- supervision and management to ensure proper host attachment and growth.

The maintenance phase involves the balance of the period of the Scheme and incorporates the planting of intermediate, medium term and long term hosts and routine silviculture techniques to ensure the Plantation achieves optimum production.

#### 1.5.8 Shareholdings of Directors of T.F.S. Corporation Ltd

The following relevant interests are disclosed:

- F C Wilson, who is a Director of the Responsible Entity, has a beneficial interest in 39.74% of the issued capital of T.F.S. Corporation Ltd;
- G E Scott, who is a Director of the Responsible Entity, has a beneficial interest in 15.79% of the issued capital of T.F.S. Corporation Ltd;
- S L Atkinson, who is a Director of the Responsible Entity, has a beneficial interest in 10.15% of the issued capital of T.F.S. Corporation Ltd;
- R L Eacott, who is a Director of the Responsible Entity, has a beneficial interest in 4.51% of the issued capital of T.F.S. Corporation Ltd; and
- B D Kidd, who is a Director of the Responsible Entity, has a beneficial interest in 5.7% of the issued capital of T.F.S Corporation Ltd.

#### 1.5.9 Interests of Directors of the Responsible Entity

The Responsible Entity is a wholly owned subsidiary of T.F.S. Corporation Ltd and therefore Directors do not hold any shares in the Responsible Entity directly. Directors' interests in T.F.S. Corporation Ltd are disclosed above. The Directors of the Responsible Entity may receive Director's fees from the Responsible Entity's own funds.

#### 1.5.10 Loans

Arwon Finance Pty Ltd (ACN 072 486 643), a wholly owned subsidiary of T.F.S Corporation Ltd, may make loan funds available to approved Applicants in the Project. All loans are on a full recourse basis.

#### **1.5.11 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.

#### **1.5.12 Commission**

The Responsible Entity may pay on average up to 7% of all Establishment Fees, management fees and rent received from Applications for Interests as commission to eligible financial intermediaries who procure Applications for Interests in accordance with the Corporations Act. In addition, the Responsible Entity may compensate licensed dealers in securities 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 the Responsible Entity and those financial intermediaries, and will be paid by the Responsible Entity from the funds that it receives as Fees under this Product Disclosure Statement.

Information concerning any payments which may be made to your adviser can be obtained from your adviser.

In respect of Applicants for whom the Responsible Entity is not obliged to pay any commission, the Responsible Entity may accept from that Applicant as if it were payment in full, Application Money that is reduced by the amount of commission that would have been otherwise payable.

#### **1.5.13 Formation and Issue Expenses**

All expenses of the issue inclusive of all legal, accounting and experts' fees together with all commissions detailed in this Product Disclosure Statement and advertising will be paid by the Responsible Entity from its own funds.

#### **1.5.14 Particulars of Interests**

1. The Responsible Entity will be paid fees, costs, rent and other disbursements as described in Sections 1.2 and 3.
2. Wilson & Atkinson, a legal firm in which Frank Wilson (Director) 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 of the Constitution, Compliance Plan, Lease and Management Agreements, other

material agreements and this Product Disclosure Statement. These professional fees will amount to approximately \$30,000 (including GST).

3. Kimber Environment Services Pty Ltd has prepared an Expert Forester's Report for inclusion in this Product Disclosure Statement. The amount which Kimber Environment Services Pty Ltd will be paid for this work will not exceed \$5,000.
4. Anantha Padmanabha has prepared an Expert Marketing Report for inclusion in this Product Disclosure Statement. The amount which he will receive for this work will not exceed \$5,000.
5. Steinepreis Paganin as solicitors to the Responsible Entity is entitled to be paid professional fees in respect of legal services provided to the Responsible Entity relating to this Product Disclosure Statement. These fees are estimated to be \$10,000 (plus GST).

#### **1.5.15 Consents**

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

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

Wilson & Atkinson has given and not before the issue of this Product Disclosure Statement withdrawn its consent for the inclusion of the Summary of Material Agreements dated 7th April 2003 contained in Section 3 of this Product Disclosure Statement and any other statement attributable to them in the form and context in which they are included.

Steinepreis Paganin has consented to being named as solicitor to the Responsible Entity in the Corporate Directory section.

True copies (verified by a statement in writing) of the consents and of every material contract referred to in this Product Disclosure Statement are available for inspection without charge at the registered office of the Responsible Entity.

## **1.6 TAXATION CONSIDERATIONS**

### **1.6.1 Product Ruling**

The Responsible Entity has applied for a Product Ruling for this Project from the Australian Taxation Office (“ATO”).

A Product Ruling is a binding public ruling under the Taxation Administration Act 1953, in relation to the 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.

A 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, a Product Ruling evidences the conditional exercise of the Commissioner of Taxation’s discretion, contained in Division 35 of the Income Tax Assessment Act 1997. If a Product Ruling is granted it 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.

The granting of a Product Ruling does 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 advice before deciding to invest in the Project.

### **1.6.2 Tax Deductions**

The Responsible Entity believes that Growers should be entitled to an allowable deduction for all Establishment Fees, First Period Fees, Annual Fees and rent when incurred. Growers who elect to prepay their First Period Fees, Annual Fees and rent should be entitled to an allowable deduction of their fees on a pro rata or straight line basis over 10 years (i.e 1/10 per year).

A Grower whose Application is accepted on or before 15 June is entitled to claim a tax deduction for the Establishment Fee in the financial year in which the Application was accepted.

A Grower whose Application is accepted after 15 June and on or before 30 June where the Responsible Entity considers that it can provide, and does in fact

provide, the Establishment Services on or before 30 June, is entitled to claim a tax deduction for the Establishment Fee in the financial year in which the Application was accepted.

A Grower whose Application is accepted after 15 June and on or before 30 June where the Responsible Entity does not intend to provide the Establishment Services until the following financial year is also entitled to claim a tax deduction in the financial year in which the Application was accepted if the Establishment Services are provided within 12 months of acceptance.

Interest on monies borrowed to pay for the Interests should be an allowable deduction in the year in which the interest is incurred for income tax purposes.

A Grower will derive assessable income from the Project being their share of the Net Proceeds of Sale less any GST payable on those proceeds.

### **1.6.3 Capital Gains Tax**

Capital Gains Tax may be payable on a disposal of an Interest and Applicants should consult with their taxation advisers on this issue.

### **1.6.4 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 T.F.S. Leasing Pty Ltd and the services provided by T.F.S. Properties Ltd in accordance with the Lease and Management Agreement. This means that a Grower will be required to pay 10% GST on payment of all services (in accordance with the Lease and Management Agreement).

Where Growers are registered with an Australian Business Number (ABN) for GST purposes, they should be entitled to claim an input tax credit equal to the GST that they have paid. A Grower may register for an ABN even if the Grower’s annual turnover is or would be less than the \$50,000 registration threshold. The main implication of a Grower not registering is that the Grower 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 an unregistered Grower will be an allowable deduction from the assessable income of that Grower in the year in which it is incurred.

The Lease and Management Agreement provides that any GST which is payable in respect of the rent, 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 the relevant Grower.

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

#### 1.6.5 Non-Commercial Losses

The New Business Tax System (Integrity Measures) Act 2000 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 a Grower either in the year of investment or in the period of the first three years of the Scheme. However, s 35-10 ITAA97 provides that the relevant provisions deferring deductibility will not apply in certain circumstances. For Growers, 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 application for a Product Ruling seeks the conditional exercise of the Commissioner of Taxation’s discretion, contained in Division 35 of the Income Tax Assessment Act 1997. The effect of the issue of the Product Ruling is 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.



## **1.7 OTHER IMPORTANT INFORMATION**

### **1.7.1 Number of Interests Offered**

The maximum number of Interests that are available for subscription is 600. The Responsible Entity may accept oversubscriptions of up to a further 600 Interests.

### **1.7.2 Minimum Subscription**

There is no minimum amount that must be raised under this Product Disclosure Statement.

### **1.7.3 Buy Back Provision**

Growers have no right to require that their Interests be repurchased by the Responsible Entity or any other person.

### **1.7.4 Transfer of Interests**

If a Grower wishes to transfer an Interest the Grower should contact the Responsible Entity (see Corporate Directory for contact details). The consent of the Responsible Entity is required. The transfer is subject to the requirements of the Corporations Act, the Constitution and the Lease and Management Agreement. The Grower must not be in default under the Lease and Management Agreement. All payments due from the Grower must be up to date. The proposed purchaser must agree to be bound by the Constitution and to perform the agreements and obligations of the Grower relating to the Project. The assignment must be in writing in a form approved by the Responsible Entity.

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

### **1.7.5 Complaints**

Growers who have a complaint about any aspect of the Project should:

- Contact the Responsible Entity in writing; or
- Contact the Responsible Entity by telephone (08 9226 1755) and ask to speak with the Complaints Handling Officer.

The Responsible Entity will acknowledge the complaint within 5 days of receiving it, and resolve the complaint in a timely fashion. If the complaint cannot be resolved within 10 days of acknowledgment then the Responsible Entity will maintain monthly contact with the Grower informing of the progress and estimated time frame for resolution of the complaint.

If the Grower is dissatisfied with the resolution of the complaint then the Grower may:

- refer the matter to the Financial Industry Complaints Service Limited (FICS) (1300 780 808). FICS is an external complaints resolution scheme of which the Responsible Entity is a member;
- access the Project's dispute resolution procedures (see Section 1.7.6); and
- pursue any other remedies that are available at law.

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

### **1.7.6 Dispute Resolution Processes**

Once the complaints handling procedures (See Section 1.7.5) are exhausted Growers have the option of accessing the Project's dispute resolution procedures. This is done by providing a notice setting out what is in dispute ("Dispute Notice"), 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 the Responsible Entity's 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.

### **1.7.7 Enhanced Disclosure**

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

If the Project is a disclosing entity, Growers may request that the Responsible Entity (see Corporate Directory for contact details) provide them with the following information within five Business Days free of charge:

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

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

### **1.7.8 Annual Report**

Growers will be sent an annual report in relation to the Project on or before 31 October each year. If Growers do not want to receive these annual reports they can contact the Responsible Entity (see Corporate Directory for contact details) and request that the information not be sent to them. The annual report will provide Growers 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.

### **1.7.9 Confirmation of Transactions**

Growers will receive confirmation of transactions occurring in relation to their Interest(s) as required by the Corporations Act. Generally this will include confirmation of the transaction by which successful applicants acquire their Interest(s) and become Growers.

### **1.7.10 Default**

In the event that a Grower defaults in payment of any Fees and/or rent, the Responsible Entity and/or the Lessor may terminate the Grower's Lease and Management Agreement in accordance with its terms and may sue to recover Fees due under the Lease and Management Agreement.

### **1.7.11 Record of Interests**

The Responsible Entity will:

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

### **1.7.12 Applications**

#### **1.7.12.1 How to apply**

To apply for an Interest (a Lease and Management Agreement in respect of one or more Sandalwood Lots in the Plantation), complete an attached Application Form and Power of Attorney and send them to the Responsible Entity with the Application Money.

By signing the Power of Attorney, you will be authorising the Responsible Entity to enter into a Lease and Management Agreement on your behalf, on the acceptance of your Application for Sandalwood Lot(s).



**1.7.12.2 Accepting your Application**

The Directors will allot the Interests as soon as practicable after any Application is received and accepted. Allocation of Sandalwood Lots to successful Applicants is at the discretion of the Directors. The Directors may accept your Application in whole or in part. Where an Application is rejected in whole or in part, the surplus Application Money will be returned in full not later than 7 days after rejection of the Application.

On acceptance of your Application, your rights, and the Responsible Entity's obligations to you in respect of each Sandalwood Lot, will be governed by the terms of the Lease and Management Agreement and the Constitution. These documents are summarised in Section 3.

In relation to Applications accepted subsequent to June 15 in any financial year, the Responsible Entity reserves the right to perform the Establishment Services in the subsequent financial year. For a discussion of the impact on tax deductions which may be available please refer to Section 1.6.

The Responsible Entity will hold all the Application Moneys which relate to the Lease and Management Agreements on trust in the Application Fund for the Applicants until it is satisfied that all the matters listed in the Constitution have been properly dealt with. At that time, the moneys comprised within the Application Fund shall be available for release to the Responsible Entity in payment of the Fees payable under the Lease and Management Agreements.

Nothing in this Product Disclosure Statement will be taken to preclude the Directors, officers or employees of the Responsible Entity from applying for Interests on the same terms as are offered in this Product Disclosure Statement.

**1.7.13 Execution of the Directors**

This Product Disclosure Statement was signed on behalf of the Directors of the Responsible Entity by:



**GRAEME ERIC SCOTT**  
Director



## 1.8 GLOSSARY

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

**“Annual Fee”** means:

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

**“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 Product Disclosure Statement) for one or more Interests.

**“Application Form”** means the form attached to this PDS in Section 1.10.3.

**“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 Interests 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.

**“Collectable Produce”** means, in relation to a Grower who is an Electing Grower, that Grower’s Proportional Share of the forest produce.

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

**“Common Areas”** means those parts of the Plantation provided by the Lessor from time to time for common use by the Growers.

**“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 Harvest and Processing”** means all costs incurred by the Manager in the Harvesting and Processing of the sandalwood trees located on the Plantation. 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 Fee”** means the fee described in Section 1.2.1.1.

**“Establishment Period”** means, in relation to any Sandalwood Lot, if the Commencement Date occurs:

on or before 15 June in any financial year, – the period from the Commencement Date to the following 30 June; or

after June 15 in any financial year, in circumstances where the Responsible Entity considers that the Establishment Services can be performed on or before the following 30 June and if the Establishment Services are performed on or before that 30 June – the period from the Commencement Date to that 30 June; or

at any time after 15 June in any financial year, in circumstances where the Responsible Entity exercises its discretion to accept the relevant Application but does not intend that the Establishment Services be performed on or before the following 30 June – the period from the next 1 July until the following 30 June.

“**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.

“**First Period**” means the financial year that commences at the end of the Establishment Period.

“**First Period Fee**” means the fee described in Section 1.2.1.3.

“**Forest Produce**” means, in relation to a Grower who is an Non-Electing Grower, that Grower’s Proportional Share of the forest produce.

“**forest produce**” means produce from the Plantation (expressed in cubic metres) after Harvesting and Processing.

“**Gross Proceeds of Sale**” means the gross amount received by the Manager from the sale of forest produce (excluding all Collectable Produce).

“**Growers**” means all of the persons who are identified as “growers” in any Lease and Management Agreements 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 Head Lessor under the Lease and Management Agreement.

“**Incentive Fee**” means the fee described in Section 1.2.1.8.

“**Indexed**” 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 the greater of an amount of two point five Percent (2.5%) or the amount calculated according to the following formula:

$$A = B \times C/D$$

Where:

A = the amount of money to be calculated as a result of the adjustment

B = the amount of money as at the date this calculation is carried out and which is to be adjusted under the terms of the Lease and Management Agreement

C = the consumer price index (all groups) for Perth (“CPI”) for the quarter ending on the June 30 prior to the start of the financial year for which the amount is to be reviewed

D = the CPI for the quarter ending on the June 30 which is 12 months prior to the date the CPI is taken under “C” above.

“**Interest**” means an interest in the Project comprising the rights, liabilities and obligation of a Grower contained in the Lease and Management Agreement, the Constitution and any other relevant documents as they relate to one or more Sandalwood Lots.

“**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 Schedule 1 to the Constitution or in such other form 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 T.F.S. Leasing Pty Ltd ACN 080 978 721, a subsidiary of the Head Lessor.

**“Manager”** means the Manager under the Lease and Management Agreement.

**“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.

**“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.

**“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 Head Lessor to the Lessor to be divided into Sandalwood Lots and common areas on which Growers will conduct the commercial silvicultural enterprise as detailed and described in this Product Disclosure Statement.

**“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 then to transport them to market for sale.

**“Product Disclosure Statement”** means this document issued by the Responsible Entity offering Interests 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 2003 (ARSN 104 124 414).

**“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 dealers licence No. 202363.

**“Sandalwood Lot”** means a specified area or areas comprising approximately 0.167 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 Interests for which the Establishment Period ends on the same date.

**“Selling and Marketing Fee”** means a fee of 5% of the Gross Proceeds of Sale (exclusive 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.

“**Target Net Proceeds of Sale**” means the targeted net proceeds of sale per Sandalwood Lot, as set out in the Lease and Management Agreement.

“**Term**” has the meaning given in the Lease and Management Agreement.

“**TFS Group**” means T.F.S 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.

## **1.9 CORPORATE DIRECTORY**

### **The Responsible Entity**

T.F.S. Properties Ltd  
(ACN 093 330 977)  
Ground Floor  
26 Clive Street  
WEST PERTH WA 6005  
Telephone: 08 9226 1755  
Facsimile: 08 9226 5747

### **The Project Manager**

Tropical Forestry Services Ltd  
(ACN 080 139 966)  
Ground Floor  
26 Clive Street  
WEST PERTH WA 6005  
Telephone: 08 9226 1755  
Facsimile: 08 9226 5747

### **Solicitors to the Responsible Entity**

Steinepreis Paganin  
Level 14, Chancery House  
37 St Georges Terrace  
PERTH WA 6000  
Telephone: 08 9221 9994  
Facsimile: 08 9221 9996

### **Expert Forester**

Kimber Environment Services Pty Ltd  
15 DeGray Close  
MANDURAH WA 6210  
Telephone: 08 9535 7705  
Facsimile: 08 9535 7705

### **Auditors of the Responsible Entity and the Scheme**

Rix Levy Fowler  
Level 1  
12 Kings Park Road  
WEST PERTH WA 6005  
Telephone: 08 9226 4500  
Facsimile: 08 9226 4300

### **Marketing Expert**

HS Anantha Padmanabha  
Malleswaram  
Bangalore India  
Telephone: 91 80 679 2528  
Facsimile: 91 80 669 4634

**APPLICATION FORMS & POWER OF ATTORNEY  
FOR THE TFS SANDALWOOD PROJECT 2003**

## 1.10 APPLICATIONS FORMS & POWER OF ATTORNEY

### 1.10.1 HOW TO APPLY

- Read the attached or accompanying Product Disclosure Statement.
- Complete the Application Form and the Power of Attorney form.
- Sign the Application Form and the Power of Attorney form. If the Applicant is a company or corporation, the seal should be affixed in accordance with its constitution.
- Joint Applications must be signed by all applicants. Joint Applicants will be deemed to be holding their Sandalwood Lots as joint tenants.
- All Applicants must sign the Power of Attorney form in the presence of an adult witness, who is **not your spouse**.
- The witness must also sign the Power of Attorney form.

#### 1.10.1.1 Registration Fees

You will be required to pay any registration fees for your Lease and Management Agreement and/or for a caveat after you have entered into the agreement. The Responsible Entity estimates the registration fees will be approximately \$75 to register the Lease and Management Agreement and/or \$75 to lodge the caveat at the Department of Land Administration.

### 1.10.2 COMPLETING YOUR APPLICATION FORM

Please ensure that you complete both:

- the Application Form; and
- the Power of Attorney form.

Please complete both forms in BLOCK LETTERS and sign on the back page of both forms.

### 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 ACN (“Australian Company 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.

### SECTION 2 – SANDALWOOD LOT[S] APPLIED FOR

Please complete the number of Sandalwood Lots in the Project applied for, and the Establishment Fee enclosed with your Application.

### SECTION 3 – PAYMENT ELECTION

Tick the appropriate box as to whether you wish to pay annually or to pre-pay the First Period Fee, Annual Fees and rent.

### SECTION 4 – ELECTION TO COLLECT & MARKET PRODUCE

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

If you do not elect to collect and market your own timber, the Responsible Entity will pool your timber with the timber 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.

### SECTION 5 – ELECTION TO INSURE

If you wish to insure the timber on your Sandalwood Lots against damage or destruction, please tick the appropriate box. The Responsible Entity will advise all Growers electing to insure their timber of the amount of the insurance premium payable, in due course. The insurance premium for the First Period is estimated to be \$25 per Sandalwood Lot (exclusive of GST).

### SECTION 6 – SIGNING THE APPLICATION FORM

The Application Form must be signed by each Applicant named in Section 1 of the Application Form. Companies or corporations must execute the Application Form under their common seal, in accordance with their constitution.

**1.10.3 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.

**Applicants must complete and lodge this form AND the Power of Attorney form.**

To: **The Responsible Entity**  
**T.F.S. Properties Ltd**  
**Ground Floor, 26 Clive Street**  
**WEST PERTH WA 6005**

**SECTION 1 – DETAILS OF APPLICANT[S]**

Please use BLOCK LETTERS

**Individual Applicant[s]**

Title: Mr / Mrs / Ms

Full Name \_\_\_\_\_ Date of Birth \_\_\_\_/\_\_\_\_/\_\_\_\_

Joint Applicant \_\_\_\_\_ Date of Birth \_\_\_\_/\_\_\_\_/\_\_\_\_

**Corporate Applicant**

Company Name \_\_\_\_\_ ABN \_\_\_\_\_ Contact Person \_\_\_\_\_

**Address & Contact Details**

Address \_\_\_\_\_

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

Telephone No (H) \_\_\_\_\_ Telephone No (W) \_\_\_\_\_

Facsimile No \_\_\_\_\_ Email Address \_\_\_\_\_

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

**SECTION 2 – SANDALWOOD LOT[S] APPLIED FOR**

The total Establishment Fee in respect of Sandalwood Lots enclosed with this Application:

Sandalwood Lots Scale	Establishment Fee Per Sandalwood Lot (GST inclusive)	Number of Sandalwood Lots Applied For by Applicant	Total Application Price
1	\$9,350		
2 - 4	\$9,075		
5 - 9	\$8,800		
10 -24	\$8,525		
25 and above	\$7,700		

**SECTION 3 – PAYMENT ELECTION**

I / We elect to:  pay annually  pre-pay in one instalment

in relation to the rent and Fees applicable to the Sandalwood Lot(s) applied for.

**SECTION 4 – ELECTION TO COLLECT & MARKET PRODUCE**

I / We  ELECT to collect and market our own produce from my/our Sandalwood Lot(s) on the Plantation.

DO NOT ELECT to collect and market our own produce from my/our Sandalwood Lot(s) on the Plantation.



**SECTION 5 – ELECTION TO INSURE**

- I / We  WOULD LIKE TO INSURE the timber on my/our Sandalwood Lot(s) [subject to the amount of the premiums payable and the availability of a suitable insurance policy].
- DO NOT INTEND TO INSURE the timber on 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.
- Before signing this Application Form, I/we have sought appropriate financial planning advice including advice from a Tax Agent or Investment Adviser as to whether I am / we are a person(s) to whom a deduction under section 8-1 of the Income Tax Assessment Act 1997 as amended is applicable and can be utilised by me/us in relation to any of the Application Moneys payable on making this Application.
- I/We have inspected or am/are aware of and agree to be bound by the terms of the Constitution and the Lease and Management Agreement (as amended for the time being).
- None of the Responsible Entity, its Directors or any promoters guarantee the success of the Project.
- An Interest in the Project, or in the Sandalwood Lots that may be issued to me/us under the Lease and Management Agreement and the terms of the Product Disclosure Statement to which this Application relates, is considered to be speculative.

**[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.

**[In relation to investments in this Project]** I/We hereby apply for Sandalwood Lots in the Plantation in accordance with this Application, and hereby acknowledge and agree:

- that the Responsible Entity has the right to accept or reject this Application for Sandalwood Lots, in whole or in part;
- that acceptance of this Application for Sandalwood Lots will be constituted by execution of the Lease and Management Agreement by the Responsible Entity on my/our behalf, without communication of acceptance to me;
- to be bound by the Lease and Management Agreement entered into by me/us;
- to pay the annual contributions in respect of the Sandalwood Lots issued to me/us, in accordance with the Lease and Management Agreement entered into by me/us and the terms of the Product Disclosure Statement to which this Application relates;
- that subject to payment by me/us of the relevant insurance premiums the Responsible Entity is to use its best endeavours to insure my/our Sandalwood Lots against destruction or damage; and
- to be bound by the provisions of the Constitution constituting the TFS Sandalwood Project 2003, as amended from time to time.

Date: \_\_\_\_\_

**Corporations: Please Affix Seal**

**Individuals: Please Sign Here**

THE COMMON SEAL of \_\_\_\_\_

Signed: \_\_\_\_\_

\_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

(ABN \_\_\_\_\_) was affixed pursuant

to its articles of association in the presence of:

Signed: \_\_\_\_\_

Director: \_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

Director: \_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

#### **1.10.4 POWER OF ATTORNEY**

##### **1.10.4.1 APPOINTMENT OF ATTORNEY**

In consideration of the issue of an Interest in the TFS Sandalwood Project 2003, the Applicant hereby appoints T.F.S. Properties Ltd (ACN093 330 977) of Ground Floor, 26 Clive Street, West Perth in Western Australia and its nominees (the "Attorney") as the attorney of the Applicant.

##### **1.10.4.2 POWERS OF THE ATTORNEY**

The Applicant hereby grants the Attorney the following powers:

- (a) to enter into and execute, date and complete any blanks in the Lease and Management Agreement (and any duplicate) for the number of Sandalwood Lots the Applicant has applied for, in respect of which the Attorney has accepted the Applicant's Application;
- (b) to do anything which in the opinion of the Attorney is necessary, expedient or desirable to stamp and register and/or lodge a caveat in respect of the Lease and Management Agreement;
- (c) to alter, modify, add or replace any provision of the Lease and Management Agreement provided that the amendment:
  - (i) in the opinion of the Attorney is not likely to be to the detriment of the Applicant's interests;
  - (ii) will in the opinion of the Attorney enable the Lease and Management Agreement to be better administered and managed in the interests of the Project;
  - (iii) is in the opinion of the Attorney required as a matter of continuing compliance with relevant statutory requirements;
  - (iv) is in the opinion of the Attorney required to correct a factual error; or
  - (v) is agreed between the Applicant and the Attorney.

- (d) to initial any alterations and execute any document which affects or evidences the amendment;
- (e) to first obtain approval by an ordinary resolution at a formal meeting of Growers. where in the opinion of the Attorney, any variation may adversely affect the Applicant's interests;
- (f) to enter into and execute on the Applicant's behalf an agreement to sell timber on such terms as the Responsible Entity considers appropriate; and
- (g) at the Applicant's cost to alter, modify, add or replace any provision of the Lease.

##### **1.10.4.3 BENEFIT OF ATTORNEY**

The Attorney may exercise the powers conferred on it under this Deed, notwithstanding any benefits that the Attorney may be entitled to as a result of the exercise of those powers.

##### **1.10.4.4 RATIFICATION AND INDEMNITY**

The Applicant undertakes to ratify and confirm any act of the Attorney in exercise of its powers under this Deed and agrees to indemnify the Attorney against all claims, demands, costs, damages, losses and expenses however suffered or incurred by the Attorney in respect of or as a result of the exercise of any of its powers under this Deed.

##### **1.10.4.5 REVOCATION**

This Power of Attorney remains in full force and effect until the termination of the Project.

##### **1.10.4.6 DEFINITIONS AND INTERPRETATIONS**

Terms used in this Deed have the same meaning as the meaning given to those terms in the Lease and Management Agreement. Where there is more than one Applicant specified in the relevant Application, a reference to the Applicant in this Power of Attorney is a reference to each of them severally and all of them jointly.

**THIS POWER OF ATTORNEY IS HEREBY EXECUTED by the Applicant[s], as a Deed:**

Date: \_\_\_\_\_

**Individuals: Please Sign Here**

Signed: \_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

Signature of Witness: \_\_\_\_\_

Print full name of Witness: \_\_\_\_\_

Signed: \_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

Signature of Witness: \_\_\_\_\_

Print full name of Witness: \_\_\_\_\_

**Corporations: Please Affix Seal**

Date: \_\_\_\_\_

THE COMMON SEAL of \_\_\_\_\_

\_\_\_\_\_

(ABN \_\_\_\_\_) was affixed pursuant

to its articles of association in the presence of:

Director: \_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

Director: \_\_\_\_\_

Print full name of signatory: \_\_\_\_\_

**NOTES FOR COMPLETION**

- Complete and sign this power of attorney in the presence of an adult witness who lives in the same State or Territory as you and who is not your spouse.
- Send the executed Power of Attorney with your completed Application and payment in full of your Application Moneys (Cheques may be made payable to T.F.S. Properties Ltd), to a licensed securities dealer or to the Responsible Entity:

**T.F.S. Properties Ltd  
PO Box 946  
WEST PERTH WA 6872**



## SECTION A

# 2. EXPERT REPORTS

- 2.1 Expert Forester's report
- 2.2 Expert Marketing report

**This section is dated 3 April 2003. It is not by itself the Product Disclosure Statement.**

**The Product Disclosure Statement is constituted by its cover page together with all of the following sections that must be read together:**

- 1. the Project and Financial Information section;**
- 2. the Expert Reports section; and**
- 3. the Summary of Material Agreements section.**

⋮  
**Kimber Environment Service**

The Directors  
T.F.S. Properties Ltd.  
26 Clive Street  
WEST PERTH WA 6005

Dear Sirs

This report has been prepared for inclusion in a Product Disclosure Statement to be issued by T.F.S. Properties Ltd (the Responsible Entity) for the establishment of a plantation of Indian Sandalwood in the Kimberley Region of Western Australia in 2003.

It has been prepared by Kimber Environment Services (the Consultant), a forestry and environmental consultancy practice that has specialised in tropical forest plantations, in particular in the establishment and management of irrigated plantations of Indian Sandalwood (*Santalum album*).

The Consultant has been involved in the development of Indian Sandalwood as a plantation subject since the first introduction of the species into the Kununurra area in 1981, and has kept abreast of developments in plantation techniques and procedures tested in Western Australia, Indonesia and New Caledonia.

Kimber Environment Services is retained by Tropical Forestry Services Limited, an associated entity of T.F.S. Properties Ltd. ("the Company") as a consultant to advise the Company on the management of its sandalwood plantations.

Irrigated plantation forestry with Indian Sandalwood is a developing industry in Western Australia, and the present state of knowledge is based on 15 years of research and operational trials, 5 years of commercial plantation ventures and an extensive experience with the management of the native Australian sandalwood (*Santalum spicatum*) which is at present the basis of the existing sandalwood industry in Western Australia.

### THE SANDALWOOD TREE

Worldwide there are 16 species of sandalwood distributed through Papua-New Guinea, Indonesia, India, Australia, and a number of Pacific Island groups. Most populations of sandalwood have been over-exploited due to their high value, and the majority of the 16 species have been reduced to the level where they can meet only restricted local, domestic market demands. Some are close to extinction

Indian Sandalwood, which is the subject of this Project occurs naturally in India, Indonesia and to a very minor extent in the Northern Territory of Australia.

⋮

All sandalwood species are partially parasitic, and they need other “host” trees closely adjacent, with which they can form a union via their roots. The host trees provide the sandalwood with its requirements for nutrients, some metabolites, and some of its water needs. Sandalwood seedlings can survive without a host for the first 6 to 12 months of life, however after that period they become unthrifty and yellow in colour, and they decline and eventually die. Although catholic in their choice of hosts, Indian Sandalwood trees will only thrive and show rapid growth rates when grown with carefully selected host species that have been identified through research trials.

The Indian Sandalwood is a small to medium tree with a dense crown of leaves. In its native India it may reach 20 metres in height and almost half a metre in diameter. However, a tree of these dimensions would be very old. Grown in plantation for 15 years, which is the period proposed for this Project, trees can be expected to reach no more than 9 metres in height and 25 cm in diameter.

Sandalwood is valued for the aromatic oil it produces in the darker coloured central core of wood in the bole and roots which is known as heartwood. The quantity and quality of oil produced varies widely from species to species. Native Australian sandalwood (*Santalum spicatum*) heartwood yields up to 2% oil (when extracted by conventional steam distillation) and the highly aromatic components, which are called santalols and for which the oil is valued, make up no more than 30% of the oil. Indian Sandalwood (*Santalum album*), in contrast, yields up to 6% oil with a santalol content generally exceeding 90%.

## BACKGROUND TO THE SANDALWOOD INDUSTRY

Sandalwood has been traded as a commodity for more than 2000 years according to Indian literature. It is marketed both as timber, and as sandalwood oil after extraction by steam distillation.

Its use is frequently associated with religious ceremony in Asian countries where large volumes of low-quality heartwood are ground to a powder and used in the manufacture of joss sticks and incense rings. In India, where the widest range of uses probably occurs, in addition to joss sticks it is also used for high quality carvings (often valued at several thousand dollars a piece), for cosmetics and toiletries, for medicinal purposes, and for flavouring chewing tobacco. Large quantities of Indian Sandalwood are distilled for the production of the extremely highly-priced oil. Major markets for sandalwood oil are Europe, the USA and the middle eastern countries where it is a component of all high quality perfumes.

In some perfumes sandalwood oil may be used for its own fragrance, however, in the majority of cases it is used as a fixative to reduce the volatility of the rare essential oils that give the distinctive aroma to the various products.

The major producers of sandalwood and its products were until recently India, Western Australia and Indonesia. During the political unrest in Timor in the 1990's, its sandalwood resources, which were the majority of Indonesia's national resource, were plundered to the point where the Indonesian government has banned the export of sandalwood and that country no longer contributes to world markets.

Australia's harvest comprises the native sandalwood of which the oil content is generally regarded as too low and of too poor a quality to warrant its extraction and marketing as a commodity. The majority of production has traditionally gone into the joss stick trade. However there is a small local industry in the south-west of Western Australia that has commenced oil extraction using solvents. A small quantity of a tropical native sandalwood (*Santalum lanceolatum*) with a very low oil content is harvested and sold in Queensland.

India now remains the only source of the highly sought-after oil derived from the Indian Sandalwood tree.

While demand has remained constant (and possibly on the increase more recently with a more liberal approach to religion in mainland China), the resource in India has declined alarmingly over the past two decades. While Indian state governments have instituted sustained harvesting levels, they are quite unable to control the wide scale theft of sandalwood trees from state forests and lands. Some estimates put the illegal removal of sandalwood in India at a level equal to or greater than the legal harvest.

A concomitant of the declining resource has been a rapidly increasing price for all Indian Sandalwood products.

## THE RESPONSIBLE ENTITY'S PROPOSAL

The Responsible Entity proposes to invite subscribers to sub-lease Timber Lots, which will be developed as an irrigated Indian Sandalwood plantation, on cleared farmland on the Packsaddle Plain in the Ord River Irrigation Area near the town of Kununurra in the Kimberley Region of Western Australia. The products from the Timber Lots may be sandalwood timber itself, or oil produced from the timber, or both and they are likely to be marketed in countries where there is a traditional demand for these products.

## THE PLANTATION SITE

### **Location.**

The plantation will be established on the farming property known as King Location 385. It is situated about 10 kilometres south-east of the town of Kununurra on Packsaddle Road. The property has all-weather access on a sealed road and is conveniently close to town from where the labour force will be drawn.

### **Soils.**

Soils of the Packsaddle Plain are quite variable and grade from sands to sandy loams to levee soils to heavy clays. Substantial trials were established in the late 1980's to determine the preferred soil types for growing Indian Sandalwood in the Ord River Irrigation Area. They provided conclusive evidence that the heavy clays of the Cununurra Series provided the best medium for growing sandalwood. For the first three years of trial, sandalwood grew more than double in height on Cununurra clays compared to its growth on Cockatoo Sands.

The soils of the Packsaddle Plain were surveyed and mapped many years ago by the West Australian Department of Agriculture. 98 percent of the soils on King Location 385 were found to comprise Cununurra Clays of the normal and alkaline phases, the remainder being small intrusions of sandy clay on the eastern boundary of the property. The Consultant is familiar with the property and has inspected the area proposed for this Project. It was found to be among the best patches of soil available in the area for growing Indian Sandalwood and comprises 100 percent Cununurra Clays.

Indian Sandalwood adapts well to growing on the Cununurra Clays, but it is essential to ensure that the land has adequate slope to shed excess water rapidly if waterlogging effects are to be avoided. The Responsible Entity has had the entire property laser-levelled to a slope that readily meets this criterion.

### **Climate.**

Indian Sandalwood is a species that occurs naturally in hot monsoonal tropical climates which experience heavy rains over a few months in the wet season followed by an almost rain-free period of several months. The tropical north of Western Australia falls comfortably into this category, but is somewhat hotter and drier than many sites that grow sandalwood naturally. The



heat is a bonus promoting fast growth, provided that adequate water is available to the trees. The natural rainfall of the Kununurra area is less than 800 mm per annum which is barely adequate considering the high open tank evaporation level in the area of over three and a half metres a year. The deficit will be made up by irrigating the plantation throughout the dry season.

#### **Availability of Water for Irrigation.**

Irrigation water for the area comes from Lake Argyle, a dam completed early in the 1970's to provide water for farms on the Ord River Irrigation Area. Lake Argyle Dam is situated on the Ord River 55 kilometres upstream of Kununurra township and water released from the dam flows through the natural channel of the Ord River until it reaches Lake Kununurra, a smaller diversion dam on the outskirts of Kununurra. The Lake Kununurra dam raises the level of the water which can then be gravity-fed into the main irrigation channel for farms on the Ivanhoe Plain north of Kununurra. The Packsaddle Plain is at a somewhat higher elevation, and irrigation water has to be lifted by high volume pumps to reach the main irrigation channel in this development.

When Lake Argyle is filled to its maximum capacity, it covers an area of more than 2,000 square kilometres, and it extends to 150 kilometres up-stream of the dam wall. At normal storage levels the lake may cover only half this area but is still capable of yielding enough water each year to irrigate the 70,000 hectares of irrigable land in the Ord River Irrigation Area. The present area of developed irrigation farms is around 13,000 hectares.

### **PLANTATION ESTABLISHMENT**

#### **Seed supply.**

The Responsible Entity has procured sandalwood seed for the Project from sources in India and from local Kununurra seed collections. The seed of Indian origin was collected from an area of good quality naturally growing sandalwood, specifically set aside for a supply of high quality seed. While this seed comes from a large number of trees representing a wide genetic base, it is not always collected under ideal conditions and from time to time may give poor germination. As a backstop, locally collected seed which has a high germination rate, but a rather narrower genetic base is also sown to ensure nursery stocks are adequate to establish the plantation. Seedlings from both seed sources perform equally well when planted in a plantation.

Seed of three of the host species is collected locally in Kununurra, a fourth is supplied by an Australian seed merchant, and the pot-host for the sandalwood comes from cuttings (or slips) from stock plants owned by the Responsible Entity. On receipt at the nursery, seed of all species is stored in a cool-room at a temperature of 4 degrees Celsius.

#### **Raising Seedlings in the Nursery.**

The Responsible Entity has constructed a large state-of-the-art nursery on the property on Packsaddle Road in which both sandalwood and host species seedlings are to be raised for the Project. The Consultant has inspected the nursery and has found it has adequate capacity to produce all the seedlings needed for this Project and has suitable conditions for hardening-off the seedlings in the month prior to planting. The Responsible Entity employs a Nursery Manager who is experienced in tropical nursery management and in the techniques for raising sandalwood seedlings, and is familiar with the standard of plant required for a tropical tree plantation.

#### **Site Preparation.**

One of the main factors affecting the success of a plantation in its establishment phase is the correct preparation of the soil. At the beginning of the dry season in the year of planting, when the soil has reached a suitable moisture level, the area will be cultivated then mounded and the mounds deep-ripped to a depth of 40 to 50 centimetres. Following ripping, the mounds are reformed and the area is irrigated to promote the growth of weed seeds that have been exposed

by the soil working. Once weeds have germinated, they are killed using a herbicide spray. This procedure may be repeated if weed growth is prolific and if there is an opportunity before the planting begins. In some years, the wet season becomes extended to the point where there is no time for irrigating and pre-planting weed control. In this case weed control becomes more onerous in the post-planting phase. These soil preparation procedures reduce the clay soils to a remarkably fine tilth ready for the planting operation.

#### **Planting Pattern and Layout.**

The procedures for site preparation produce mounds approximately 50 cm high on which the trees are planted. Mounds are spaced apart at 1.83 metre centres, and every second mound is planted. The spaces between mounds act as furrows for the delivery of irrigation water. Sandalwood seedlings are planted at the rate of 463 plants per hectare and alongside each sandalwood seedling are planted two short-term hosts which will support the sandalwood until its root system is extensive enough to be in contact with the two long-term host species in an adjacent row. So in addition to the sandalwood seedlings, a total of 1620 host seedlings are planted per hectare.

#### **The Planting Operation.**

Planting commences as soon as the weather has started to cool down early in the dry season. This may be as early as the beginning of May or as late as the beginning of June. Planting must generally be confined to cooler weather which lasts until the end of August. Sandalwood seedlings and the more delicate species of hosts are watered in by hand at the time of planting. The entire area planted in any one day is furrow irrigated immediately after the end of the day's work. These watering procedures have in recent plantations resulted in close to 100 percent survival among the seedlings.

The Responsible Entity will assess the results of the planting in late July to early August, and will replant any gaps that would result in a Timber Lot being less than 95 percent stocked. The long-term aim of the planting operation is to achieve a average stocking of 416 sandalwood trees per hectare (69 trees per Timber Lot), reasonably well spaced over the area of the plantation. In the event of an early onset to the hot season, it may not be possible for the Responsible Entity to undertake a successful replanting to fill gaps.

### **MANAGEMENT OF THE PLANTATION.**

#### **Irrigating.**

For the first 4 months after planting, the trees are irrigated at 7-day intervals, and this can be extended to 10 days towards the end of the first dry season.

A 14-day interval between irrigations is adopted for the first half of the second dry season, and the frequency increased to 21 days for the second half.

During the second dry season, the unplanted mounds between each tree row are spooned out to form a wide irrigation furrow. The soil taken from this operation is deposited on the mounds with trees, so raising them in height by a few centimetres which ensures good on-going drainage.

In the third dry season the frequency between irrigations is extended to a nominal 28 days. However, in practice the trees are irrigated when the soil dries out to the point where the clay begins to crack. This irrigation regime is followed for the rest of the life of the plantation.

#### **Weed Control.**

The control of weeds in the early life of the plantation is critical to the survival of the tree seedlings.

In the first dry season weeding is necessary at least once every four weeks. Unplanted mounds and the furrows between the planted mounds are weeded using a custom-made harrow with

spear-shaped tips to the tines. The mounds on which the trees are planted can only be weeded by hand labour, chipping with hoes. Occasional, unusually dense weed growth and intractable weed species may be treated very carefully by spraying a herbicide from spray nozzles that are shrouded to prevent spray drift on to the tree seedlings.

In the second year of the plantation the trees have become quite deep rooted and are able to successfully compete against soft herbaceous weeds. However, selective hand weeding using machetes is needed for the control of large woody weeds and of creepers which are capable of smothering the young trees. A similar attention has to be paid to the control of woody weeds and creepers in the third year and possibly into the fourth.

In the fifth year and beyond the trees in the plantation will have formed a dense overhead canopy that effectively shades out or stunts weed growth.

### **Pruning.**

Indian Sandalwood has a tendency to develop a branchy bole when young. In older trees these branches are shed as the tree increases in height and the lower branches become shaded out by those higher in the tree. This self-pruning does not take place in the plantation situation as the trees will be harvested at the relatively early age of 15 years. Consequently, in order to develop a clear lower bole (which the market favours) it is necessary to manually prune the branches from the lower two and a half to three metres of the bole.

Pruning to this height takes place gradually over a period of three years starting when the trees are about 18 months old. This extended period of pruning is necessary to avoid the removal of too much of the tree's live crown and foliage in any one year.

### **Pest Control.**

Indian Sandalwood grown in the Ord River Irrigation Area has to the present remained remarkably free of insect pests. However, one of the short-term hosts which is planted with the sandalwood may be subject to defoliation by looper caterpillars and by melon beetles in the wet season or early in the dry season. In the event of severe attacks with the potential to result in successive defoliations, the Responsible Entity may decide to control these insects using an insecticidal spray. Generally the host species will recover from the insect attack with no interference by the Responsible Entity.

### **Fertilisers.**

Because the land on which the plantation is to be established has a long history of cropping, there has been a build-up in the residual fertility of the soil.

This factor, together with the experience that applying fertilisers early in the life of the plantation promotes weed growth, has persuaded managers of sandalwood plantations in the area to apply no fertilisers.

Later in the life of the plantation, when the tree canopy has shaded out weed growth, the Responsible Entity may opt to make applications of fertilisers at no less than four-year intervals provided research has shown them to be beneficial in increasing the growth of the plantation, and provided it can be shown that fertilisation provides positive financial benefits.

### **Maintaining Irrigation Structures and Service Tracks.**

The water-supply channels and the drains of the irrigation system, and the service tracks that run parallel to them need ongoing maintenance throughout the life of the plantation. These maintenance operations involve annual grading of the tracks, delving of the water supply channels and cleaning drains with a backhoe. A number of herbicide sprays are also needed each year to keep weeds under control in these areas.

## ESTIMATED YIELD FROM THE PLANTATION

As no commercial plantations of Indian Sandalwood have yet been grown to maturity in the Ord River Irrigation Area, the Responsible Entity's estimate of production is speculative to some degree.

T.F.S. Properties Ltd. have estimated the yields to be expected from its plantations from a number of data sources. These include the growth of groups of trees grown locally, published growth rates of non-irrigated stands in India, and detailed analyses of the distribution of heartwood in trees of various sizes of the closely related species *Santalum austrocaledonicum* grown in New Caledonia.

In making estimates the following factors have to be taken into account:

- the development of heartwood has been found to have commenced in most trees by the fifth year, and it will continue to develop until the tree is harvested at around 15 years. It follows that at this age the core of heartwood should be the same dimension as the tree's bole was at 10 years of age. This assumption is supported by growth and heartwood data from sources in India and New Caledonia.
- heartwood also occurs in the roots of the tree. No data is yet available on this factor in trees grown in the Ord River plantations. However a very detailed study of heartwood production in the stump and roots of trees has been made in the closely related *Santalum austrocaledonicum*. In this species the heartwood content of the stump and major roots was determined to be between 18 percent and 45 percent of the weight of the heartwood in the bole. The Responsible Entity has adopted an estimate towards the lower end of this range for application to Ord River sandalwood.
- The quality and quantity of oil in the heartwood, according to Indian sources, is likely to be quite variable, is probably subject to genetic control in the tree and will improve as the tree gets older. While testing for oil content in 15 year-old trees has yet to be carried out, the heartwood in trees at this age has an aroma of sufficient intensity to indicate a good oil content.

The Responsible Entity proposes to harvest the plantation over a three year period in order to contribute (in cooperation with other local plantations) to a sustained supply of sandalwood to world markets from Western Australia. This extended harvest will start at year 13 and continue through the 14<sup>th</sup> and 15<sup>th</sup> years. The Responsible Entity proposes to harvest only trees that have reached a size where their heartwood content is expected to be 30 kilograms or more. Such a procedure will require the removal of the largest trees in the plantation at each harvest. The first removals will reduce the density of trees in the plantation, and may result in increased growth rates among the residual trees.

Yields from each hectare of plantation are estimated by Responsible Entity to be at least 416 trees each with 30 kilograms of heartwood. This equates to 2.08 tonnes of heartwood from each Timber Lot.

The Consultant is of the opinion that this yield is achievable from Ord River plantations provided that establishment and silvicultural operations are performed as described earlier in this report and are successful.

Each subscriber will have the option of pooling the produce from their Timber Lot with those of other subscribers. The Consultant believes this to be an excellent approach.

## RISKS TO THE PROJECT, AND ITS MANAGEMENT.

### **Climatic Risks.**

The Kununurra area lies within the tropical zone of Western Australia that is regarded as liable to experience 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 violent winds associated with the break of the seasons. These events can result in the snapping off of the tops of young sandalwood trees at the edges of the plantation. As a safeguard, the Responsible Entity now follows a policy of planting only host species around the edges of the plantation, to act as a windbreak to the sandalwood trees.

### **Fire.**

Although the Kimberley Region experiences annual grass fires in its savannah woodland vegetation, these do not enter the irrigated farming areas and are unlikely to encroach onto a well managed sandalwood plantation in the same area.

King Location 385, however, adjoins native bush on its eastern boundary, and an intense bushfire driven by strong winds has the capability to scorch trees on the edge of a plantation. The Responsible Entity has responded to this risk by maintaining a wide firebreak, which doubles as an access track, clear of vegetation on this boundary of this property.

### **Disease.**

The infection of some host tree species by fungal pathogens has been recorded in some of the earlier trial sandalwood plantings. The species affected were not any of those currently used as hosts, and fungal problems only appeared in areas of less than adequate drainage. Any risk of fungal problems can be minimised by maintaining good drainage from the plantation.

### **Cattle Intrusion.**

The native bush to the east of the property is under Pastoral Lease, and the lease is unfenced. There is a possibility that cattle will stray into the plantation area, which is irrigated, in search of green feed. This presents a distinct risk to young sandalwood trees which are highly palatable to stock. The Responsible Entity should consider fencing the eastern boundary of the property to prevent cattle entry.

### **Rising Groundwater.**

In common with most large irrigation schemes around the world, the Ord River Irrigation Area is experiencing rising water tables. This is far from being a problem in the Packsaddle Plain, and tree plantations also have a reputation for lowering water tables. Nevertheless, the Responsible Entity intends monitoring the situation by installing a series of measurement bores, known as piezometers.

### **Other Risks.**

This category of risk is included to summarise factors discussed earlier in this report which could be regarded as a risk to the success of the Project.

No Indian Sandalwood trees have been grown to commercial maturity in a plantation situation in the Kimberley Region, and few have been harvested and analysed to determine local rates of heartwood development. Heartwood yields are accordingly speculative.

All the technology to be used in the Project has been developed and tested locally over more than 15 years, and it can be regarded as robust and reliable as a result. The Consultant believes from experience that the long-term host species selected for this Project can withstand the parasitic demands of the sandalwood, and will survive for the 15-year life of the plantation. In the event that this may not be so, the Responsible Entity has the option to re-establish the fastest growing and most favoured of the hosts by sowing its seed directly into the plantation.

## HARVESTING, PROCESSING AND EXPORTING.

### **Harvesting.**

Because sandalwood develops oil in its roots it is not harvested by the conventional means of cutting down by saw. Depending on their size and the depth of their roots, sandalwood trees are either pulled out of the ground using a chain pulled by a heavy tractor, or forcibly lifted out of the ground by hydraulic forks. Once out of the ground the tree will be trimmed and cut into components and sizes that suit the market of the day.

I have assessed the present-day costs of harvesting, processing and transporting the products to store of approximately \$7,000 per hectare. I therefore regard the Responsible Entity's assumption of these present day costs of \$1,167 per Timber Lot (approximately 1/6th of a hectare) to be reasonable.

### **Processing.**

By the time the crop from this Project has been harvested, there is a possibility that a processing plant may have been established in Kununurra to extract the sandalwood oil from the timber. If this is the case, subscribers may find the opportunity to add value to their product an attractive option.

### **Exporting.**

The major consumers of sandalwood and its products live in Asia, Europe and America, so the products from this Project will have to be exported to reach consumer markets.

The nearest seaport to Kununurra is Wyndham, and the two centres are connected by 100 kilometres of all-weather sealed road.

## ENVIRONMENTAL AND SOCIAL CONSIDERATIONS.

Sandalwood plantations, in addition to their probable contribution to lowering ground water tables, will benefit the Ord River irrigated farming area in a number of positive ways. The man-made sandalwood forests will provide a new habitat for forest-loving birds and animals which in the arid climate of the East Kimberley Region are confined to the forest habitats that occur naturally only along the fringes of water courses, and as small patches of rainforest. Both of these forest vegetation types have become much reduced since European settlement through grazing by domestic and feral animals and by fire.

The plantations will also provide some visual relief and diversity to the farming area, while their contribution to the pollution of run-off waters by fertilisers and pesticides will be much less than under a farming regime due to the benign management practices in forestry.

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

## MANAGEMENT CAPACITY OF THE RESPONSIBLE ENTITY.

The proposed Project will be the fifth Indian Sandalwood plantation managed by the Responsible Entity. The experience gained from the already established projects has been invaluable and has allowed the Responsible Entity to develop a highly skilled field staff on the ground in Kununurra.

Management of the plantations follows a management plan, supported by detailed manuals which prescribe nursery procedures and plantation establishment procedures. Both the management plan and the manuals have been written by professional forestry

consultants who are experienced in all facets of the establishment and maintenance of Indian Sandalwood plantations in the Ord River Irrigation Area.

It is the Consultant's opinion that the Responsible Entity is a fit and proper organisation to run the proposed sandalwood plantation as a successful Project.

### ASSUMPTIONS BY RESPONSIBLE ENTITY

The Responsible Entity has used the following assumptions, among a number of assumptions, which it has included in the Product Disclosure Statement:

- There should be an average of approximately 69 sandalwood trees per Timber Lot to be harvested;
- The total production of heartwood per sandalwood tree to be harvested should be 30kgs;
- Total average heartwood production per Timber Lot should be 2.07 tonnes (2,070 kgs);
- The trees should be harvested progressively from the commencement of the year 13 in accordance with the following ratios: year 13 - 15 %; year 14 - 30%; year 15 - 55%; and
- The present day costs per Timber Lot of harvesting, processing and transporting to store the sandalwood should be \$1,167 per Timber Lot;

These assumptions are supported by the independent conclusions that I have drawn earlier in this report. Accordingly, I verify these assumptions as reasonable.

### DISCLAIMER

Kimber Environment Services has prepared this report to bring to the attention of potential subscribers to the Project the activities and operations necessary to achieve a successful outcome, and to bring to their attention any perceived risks in undertaking the Project. This report does not comment, and does not purport to comment on the financial and taxation aspects of the Project, nor with regard to marketing its likely products.

Actual results may vary from those predicted in this report since the Project is to some extent speculative.

Kimber Environment Services gives no assurance or guarantee that the proposed plantation regime outlined in this report will be successfully carried out, nor any assurance that the outcomes will be as predicted.

Peter Kimber  
Kimber Environment Services  
03 April 2003

## EXPERT MARKETING REPORT

H.S. Anantha Padmanabha  
Forestry Consultant

#31 AMBIKA  
Poorna Pragna Lay out  
BSK 3d Stage,  
Bangalore 560085.INDIA

3 April 2003

### MARKET REPORT ON SANDALWOOD

Dear Sirs

This report has been prepared for inclusion in a Product Disclosure Statement ("PDS") to be issued by TFS Properties Ltd.

It has been prepared by Anantha Padmanabha, a qualified scientist with over 35 years experience in forestry in India. Mr Padmanabha was a senior scientist at the Institute of Wood Science and Technology in Bangalore (India) from 1964 to 1998, during which time he was responsible for guiding a number of research projects on sandalwood, including but not limited to techniques of growing sandalwood and diseases and pests affecting sandalwood. Mr Padmanabha has co-authored books on sandalwood and has published over 125 publications in both Indian and International Journals. From 1994 to 1998 Mr Padmanabha was designated Chief Technical Advisor for sandalwood projects with the World Bank FREE project (ICFRE) in India. Mr Padmanabha is currently a Forestry Consultant and Director of Karnataka Research Foundation for Advance Science Technology Transfer in Bangalore

#### SANDALWOOD – A VALUABLE COMMODITY

Sandalwood and its oil has been the most valuable and wanted perfumery material 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.

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

#### HABITAT AND PROPERTIES

##### Occurrence

Apart from India, *Santalum album* is grown in Indonesia, New Caledonia, Fiji Islands and Philippine Islands.

In India, Indian 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% of total Indian resource.

##### Heartwood formation

The Indian sandalwood tree is harvested for its heartwood which is rich in fragrant oil. The formation and development of heartwood is dependent on age, growth, soil and rainfall; and genetic factors also seem to play an important role.

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.



### 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 the wood is taken. Sandalwood's heartwood ranges in colour from light yellow to dark chestnut brown.

Colour of Wood	Oil percentage (%)	Santalol* percentage (%)
Yellow	2.7 – 3.5	90
Light brown	2.5 – 6.0	85 - 90
Brown	About 2.5	Less than 85
Dark Brown	Less than 2.5	75 – 85

\* alcohol contained within sandalwood oil

Heartwood is contained within the trunk, butt, roots and major branches. The oil content in the butt and the roots is slightly more than that of the trunk and the branches. It is said that 1 tonne of a good sandalwood will yield on distillation 50.9 kgs of oil.

### USES FOR SANDALWOOD

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

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 fixative properties and for its persistent heavy sweet, woody scent. The fixative property of the oil is due to its high boiling fragrant constituents  $\alpha$  and  $\beta$  santalols. The oil is also 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, expectorant stimulant and for the 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 yagna to carry scented fumes to "God" in India. Sandalwood is also used in the funeral pyre in Hindu culture.

In India about 15 to 20 percent of wood extracted every year is sold to registered handicraft artisans at a subsidised rate of 25 to 30 percent of the value. Small amounts are purchased by individuals for making paste during puja and to use as household medicine. 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 on average 4,000 tonnes during 1965 to 1970, meeting 80 to 90 percent of 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. (*Report on the sandalwood marketing in India, Govt. of India*).

It is estimated that the actual annual harvest of sandalwood is currently approximately 5,000 tonnes per annum. The difference being that which is illegally harvested of approximately 4,000 tonnes.

Grave concerns are held over the future sustainability of the sandalwood harvest unless the illegal harvesting can be restricted.

## 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 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. Approximately 2.5 times official government harvest.

The biggest producer of sandalwood oil in India is the Sandal Oil Factory in South India, where they are distilling approximately 1,200 tonnes of wood annually to produce oil. The oil is exported to different countries; at present the available raw material is not enough to meet their captive consumption.

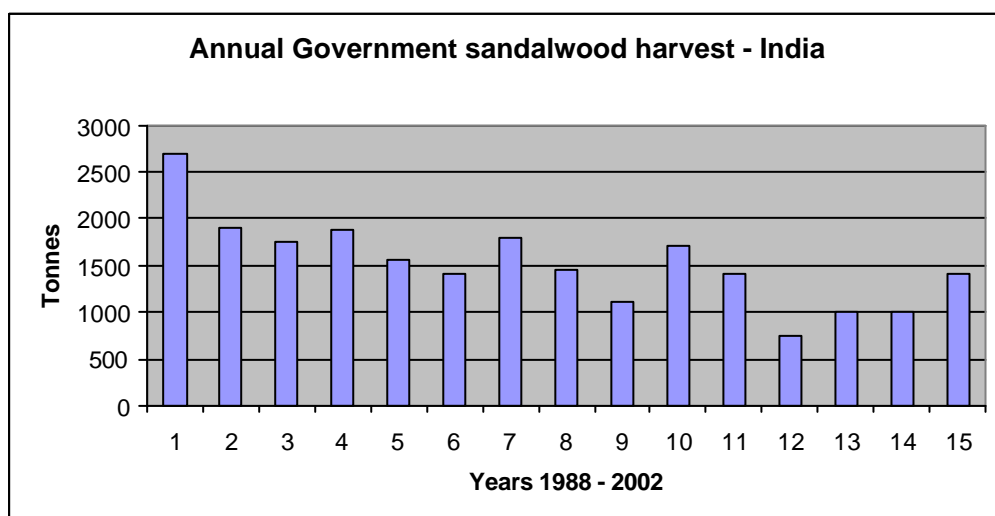
## ESTIMATED WORLD WIDE RESOURCE

Apart from India, *Santalum album* is grown 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 depletion of the resource is illustrated by the level of annual government harvest which has been in decline over the past 12 years.



Concerted efforts are now being made to raise new plantations in India since the State Forest laws have been amended in favour of growers, but it will take another 20 years to reap the harvest, if proper protection is taken.

And 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 years because of a logging ban. To prevent collapse of the established industries they may have to import wood from Australia or India (*Sandalwood Newsletter, May 2000*).

## **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 annual requirement of wood is estimated as being 800 tonnes and the annual requirement for oil is approximately 60 tonnes. The official figures available with regard to wood production and oil would not match the quantity in use by various industries because of the level of illicit dealing.

Because of short supply of natural oil, 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 or 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 2000 tonnes of wood. Merchants who had stored wood over the years exported wood to various countries.

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. Sale of wood in 2001 was approximately 1,000 tonne of wood and during 2002 it increased to approximately 1400 tonnes. The Indian buyers either use it for the distillation of oil or export both wood and oil to different countries after obtaining permits.

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% 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 population are regularly using scented tobacco. It is claimed that this industry alone requires about 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 2002, the sale price of sandalwood in India has increased from US\$4,000 per tonne to US\$32,000 per tonne, an average increase of 38 per cent per annum. The latest auction in Tamil Nadu in January 2003 recorded average prices across all categories of wood of US\$35,191 per tonne. There has been a steep rise in sale price from the year 2001-2002 to 2002-2003 of about 70%. This trend in increase is due to liberalisation of export by the Indian Government. It is likely that this trend will continue due to dwindling supplies.

#### Price Trend

1990 – 91	US\$4,000
1991 – 92	US\$5,700
1993 – 95	US\$7,000
1996 – 97	US\$13,000
1998 – 99	US\$14,100
1999 – 2000	US\$14,600
2000 – 2001	US\$19,150
2002-2003	US\$32,000

Based on the current market price of sandalwood, oil distilled should be sold for not less than US\$640 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.

### 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 US\$41,000 per tonne. This represents a premium of approximately 28%.

## 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% of wood to oil, the total annual requirement within India is 2,000 tonnes.

Currently India exports a total of 3,000 tonne of wood comprising 2,000 tonne of wood and 50 tonne of oil (which in wood equivalent is 1,000 tonne).

Accordingly, the total demand for sandalwood is 5,000 tonnes. India can only harvest on a sustainable basis an estimated 1,000 tonne. To ensure long term survival of sandalwood oil industry it shall be necessary to reduce level of harvest.

At the same time as supply is declining, demand is increasing in both domestic and international markets for sandalwood wood and oil. This gap between supply and demand is expected to continue to widen over time causing further escalation of price.

## FUTURE DEMAND

Mr B.J. Edwards, Vice President, International Bush Boake Allen Ltd., is of the view that the international demand for fragrance and flavours (Fragrances and Flavours in the 21 Century, XIV FAFFAI Seminary 1999), will go beyond US\$12 billion in the 21<sup>st</sup> century, compared to less than US\$8 billion today. Broad consumption figures indicate that China, Africa and India provide more than 50% of the world population, yet consume only 35% of fragrant and flavoured products manufactured in the world. It can be seen that 20% of the world's affluent society, mainly USA and Western Europe, consumes 65% of fragrant and flavoured products. This means that to upgrade the lifestyle of 80% of developing or underdeveloped populations, there will be tremendous opportunities for fragrance and flavours in the 21<sup>st</sup> century.

Some of the major perfumery, attar and pan marsala (scented chewing tobacco, Zarada) industries have become aware that users may slowly reject synthetic products because of harmful side effects. Asian countries in particular have become more health conscious and are demanding only natural ingredients to be incorporated in various products.

It may not be possible to meet the growing demand of natural essential oil if new plantations are not raised elsewhere with efficient management practices to produce raw material as quickly as possible.

### **ASSUMPTIONS BY RESPONSIBLE ENTITY**

The Responsible Entity has used the following assumption, among a number of assumptions, when preparing the assumptions on investment returns that it has included in the Product Disclosure Statement:

- As at 31 January 2003, the international market price for cleaned logs is US\$35,191 per tonne (US\$35.19 per kg).

This assumption is supported by the conclusions that I have drawn earlier in this report. Accordingly, I verify this assumption is reasonable.

Yours sincerely

**H.S. Anantha Padmanabha**  
**Forestry Consultant**



## SECTION A

### 3. SUMMARY OF MATERIAL AGREEMENTS

3.1	The Constitution .....	1
3.2	Compliance Plan .....	6
3.3	Lease and Management Agreement.....	7
3.4	Plantation Management Agreement .....	16
3.5	Head Lease .....	16

**This section is dated 7 April 2003. This section is not by itself the Product Disclosure Statement.**

**The Product Disclosure Statement is constituted by its cover page and all of the following sections that must be read together:**

- 1. the Project and Financial Information section;**
- 2. the Expert Reports section; and**
- 3. the Summary of Material Agreements section.**

### 3. SUMMARY OF MATERIAL AGREEMENTS

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

- The Constitution;
- The Compliance Plan;
- The Lease and Management Agreement;
- The Plantation Management Agreement; and
- The Head Lease.

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

#### 3.1 THE CONSTITUTION

The Constitution is dated 18 March 2003 and operates as a deed binding on all of the Growers of the Project and the Responsible Entity. The Constitution establishes and governs the managed investment scheme known as the TFS Sandalwood Project 2003 (ARSN 104 124 414). In compliance with the Corporations Act, the Constitution has made adequate provisions for those matters referred to in section 601GA of the Corporations Act.

The Constitution includes provisions to the following effect:

- **The Responsible Entity**

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

- **Application Price**

To acquire an Interest in the Project and become a Grower, an Applicant must pay the applicable Fees (referred to in the Constitution as the “Application Price”).

- **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).



- **Project Property**

All Project Property must be held by the Responsible Entity for the Growers or alternatively by an agent/custodian appointed by the Responsible Entity.

- **Power of Investment**

Subject to the Constitution and the Corporations Act, the Responsible Entity may invest all or part of the Application Fund or the Proceeds Fund in authorised investments.

- **Complaints**

The Responsible Entity must appoint a complaints handling officer to deal with complaints made by Growers. Any Grower may make a complaint about any aspect of the Project. The Responsible Entity must within five business days after receiving the complaint, write to the complainant either to acknowledge the complaint or respond 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. The Responsible Entity must treat all complaints seriously and deal with them in a timely manner having regard to the nature of the complaint. 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 an external complaints resolution body or take whatever action is open to the complainant under the general law.

- **Winding-Up**

The Responsible Entity must wind up the Project (or any Scheme) in any of the following circumstances:

- on the direction of the Growers in accordance with section 601NB of the Corporations Act;
- if the Responsible Entity considers the purpose of the Project (or the Scheme) has been accomplished or cannot be accomplished in accordance with section 601NC of the Corporations Act;
- a court orders the Project (or the Scheme) to be wound up pursuant to section 601ND of the Corporations Act; or
- any of the circumstances set out in section 601NE of the Corporations Act occur; or
- 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 and expenses 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). During the winding up of the Project (or any Scheme) the Responsible Entity may terminate any other agreements or arrangements it has entered into with the Growers which relate to the Project (or Scheme).

- **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 and expenses that are incurred by the Responsible Entity in establishing, administering or winding up the Scheme.

The Responsible Entity is not entitled to any fees or recovery of costs from Project Property in circumstances where the Responsible Entity has not properly performed its duties.

- **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. However, the rights of the Responsible Entity of indemnity out of the Project Property are available only in relation to the proper performance of the Responsible Entity's duties.

- **Application Money**

Application Money is to be paid in full at the time of lodging an Application. It is at the discretion of the Responsible Entity to accept payment by instalments. An Applicant may pay the Application Money in such amounts and in such instalments as the Responsible Entity determines.

All Application Money is to be paid by the Applicant directly to the Responsible Entity who must place that Application Money in the Application Fund. The Application Money can only be released to the Responsible Entity when all of the conditions that are required to be satisfied under the Constitution are satisfied.

- **Lease and Management Agreements**

The Responsible Entity shall execute a Lease and Management Agreement in its dual capacity as Manager and as the Head Lessor. The Responsible Entity will ensure that the Lessor executes the Lease and Management Agreement. The Responsible Entity will also execute the Lease and Management Agreement on behalf of each Applicant who becomes a Grower pursuant to the power of attorney granted to the Responsible Entity.

- **Releasing Application Money**

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

- the Lease and Management Agreement has been duly completed and executed by all parties;
- the Head Lessor is the registered proprietor of all of the land that is to be subleased;
- 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;
- the property that is the subject of the lease is not subject to any encumbrance or restriction which detrimentally affects the interests of an Applicant and which is not disclosed in the Product Disclosure Statement;
- there are no outstanding material breaches of any of the provisions of the Constitution which detrimentally affects the interests of an Applicant; and
- any minimum subscription which is referred to in the Product Disclosure Statement 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.

- **Distribution of the Proceeds Fund to Growers**

Pursuant to the terms of each Lease and Management Agreement, the Responsible Entity must deposit the proceeds from the sale of the Timber into the Proceeds Fund before distribution to Growers after payment of all relevant fees and expenses.

- **Power and Duties**

The Responsible Entity must:

- perform the obligations that are imposed on it in the Lease and Management Agreements;
- ensure that all services which are reasonably required by Growers under a Lease and Management Agreement are performed in a proper and efficient manner; and
- manage the business, investments and affairs of the Project;
- 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 Product Disclosure Statement.

- **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:

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

However nothing will have the effect of exempting the Responsible Entity from, or indemnifying the Responsible Entity against liability for breach of trust where the Responsible Entity fails to show the degree of care and diligence imposed under the Corporations Act and the Constitution.

- **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.

- **Transfer and Transmission**

Assignment of Lease and Management Agreements is governed by the terms of the Lease and Management Agreement. Clause 20 of the Constitution contains details of certain administrative and procedural matters relating to assignment. Clause 21 of the Constitution deals with transmission of the Grower's interests and provides that the legal personal representative of a deceased Grower will be the only person recognised by the Responsible Entity as having any title to or interest in the Grower's Interest.

- **Retirement and Removal**

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

- **Register**

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

- **Meetings**

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

- **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.

- **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.

### **3.2 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. In preparing the Compliance Plan the Responsible Entity:

- undertook a structured and systematic process which considered the Responsible Entity's obligation under the Corporations Act and the Constitution;
- identified risks of non-compliance; and
- established measures designed to address those risks.

Part 5C 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:

- Project Property is clearly identified as Project Property and held separately from the property of the Responsible Entity and property of any other scheme;
- the compliance committee functions properly;
- the Project Property is valued at regular intervals appropriate to the nature of the property;
- the compliance plan is audited; and
- 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:

- the establishment and operations of the Compliance Committee;
- the appointment of a compliance officer and the duties and reports to be prepared by the compliance officer;
- appointing a custodian (if required);
- conduct of business issues (such as procedures in relation to compliance with Lease and Management Agreements, insurance, financial requirements, register of Growers, distribution of income to Growers and fees and expenses);
- procedures in relation to Application Money and the transfer of money from the Application Fund; auditing of the Compliance Plan; dealing with related party issues;
- appointment and monitoring of external service providers;

- the handling of complaints;
- the training, recruitment and experience of staff;
- internal review of compliance by the Directors; and
- ensuring compliance with the requirements of the Dealer's Licence held by the Responsible Entity.

### **3.3 LEASE AND MANAGEMENT AGREEMENT**

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

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

**The lease section includes provisions to the following effect:**

- **Grant of Sub-Lease**

With effect from the commencement date (being the date the Responsible Entity accepts the relevant Applicant's Application Form) the Lessor grants to the Grower and the Grower takes from the Lessor a sub-lease of the Sandalwood Lot(s) together with the fixtures and subject to the encumbrances.

The Lessor reserves the right to:

- come on to the Sandalwood Lot(s) for the purpose of undertaking the Lessor's covenants; and
- convey gas, water, nutrients, herbicides, pesticides, electricity and other power over, into, or upon the Sandalwood Lot(s).

- **Rent**

Rent for the First Period is \$250 per annum per Sandalwood Lot and is paid out of the Grower's Application Money. In respect of each financial year after the First Period the rent per Sandalwood Lot is the previous year's rent adjusted for the greater of CPI or 2.5%. As an alternative, each Grower may prepay the rent by payment of \$3,000 per Sandalwood Lot.

- **Grower's Obligations**

The Grower covenants as follows:

- not to use or permit to be used the Sandalwood Lot(s) for any purpose other than that of commercial silviculture and not to use the Sandalwood Lot(s) for the purpose of permanently or temporarily residing on it or for residential, recreational or tourist purposes;
- at all times to manage, cultivate and work the Sandalwood Lot(s) so as to maintain and develop the Sandalwood Lot(s) for the purpose of long

term commercial silviculture in a proper and skilful manner and according to generally accepted silvicultural methods;

- at all times during the Term to keep the Sandalwood Lot(s) free of noxious weeds, suckers, scrub and undergrowth, and prevent erosion, overcropping or degradation of the Sandalwood Lot(s) and keep the Fixtures in good and substantial repair order and condition;
- not at any time during the Term of the Lease to do, permit, or suffer to be done any act, matter or thing upon the Sandalwood Lot(s) whereby any insurances in respect of the Sandalwood Lot(s), Trees or the Fixtures may be vitiated or rendered void or voidable;
- not to store nor permit to be stored or used inflammable or dangerous substances upon the Sandalwood Lot(s) (except as may be necessary for the ordinary conduct of the use of the Sandalwood Lot(s) for long term commercial silviculture) and in the event of any such necessary use, must give to the Lessor prior written notice of the substances in question and of the proposed method of storage or use;
- to do all things necessary to prevent the outbreak or spread of fire upon, from or to the Sandalwood Lot(s) and must comply with the Bushfires Act 1965 and all reasonable directions of the Lessor in relation to the prevention and control of fire;
- not to do or permit to be done on the Sandalwood Lot(s) anything which in the opinion of the Lessor may become a nuisance, disturbance, obstruction or cause of damage whether to the Lessor, to the other Growers or to the Fixtures nor to use the Sandalwood Lot(s) in or for any noisy, noxious, offensive or illegal manner or purpose;
- use all reasonable measures by dressing, fumigating and poisoning for, exterminating and keeping the Sandalwood Lot(s) free of rabbits or other vermin and comply with the provisions of the Plant Diseases Act 1914, the Agricultural Produce (Chemical Residues) Act 1983, the Agricultural and Related Resources Protection Act 1976, the Health Act 1911, and Local Government Act 1995 and the Land Acquisition and Public Works Act 1902;
- comply with all statutes, ordinances, proclamations, orders and regulations present or future affecting or relating to the Sandalwood Lot(s) or the use thereof or to the Fixtures, any machinery, plant, equipment, or other fixtures and fittings therein, and with all requirements which may be made or notices or orders which may be given to the Grower (or to the Lessor provided that the Lessor duly notifies the Grower) by any governmental, semi-governmental, shire, municipal, health, licensing or other authority having jurisdiction or authority in respect of the Sandalwood Lot(s) or the use thereof or in respect of the Fixtures or any machinery, plant, equipment, or other fixtures and fittings therein;
- not to install or remove, agree to or permit the installation or removal on or from the Sandalwood Lot(s) of any of the Fixtures, earth, graves, stones, sand or minerals or any fittings and improvements without first obtaining the written consent of the Lessor which consent the Lessor may withhold in its absolute discretion;

- to give to the Lessor prompt notice in writing of any accident to, or defect or want of repair in, any services or fixtures, fittings, plant or equipment on the Sandalwood Lot(s) and of any circumstances causing or likely to cause any danger, risk or hazard to the Sandalwood Lot(s) or the remainder of the Plantation;
  - transfer and grant to the Responsible Entity (by executing the Lease), 50% of the Carbon Credits (if any) to which the Grower is entitled pursuant to the terms of the Lease;
  - to keep the Fixtures on the Sandalwood Lot(s) in good and substantial repair and condition; and
  - upon the expiration of the Lease to peaceably surrender and yield up to the Responsible Entity the Sandalwood Lot(s) clear and free of rubbish and in good and substantial repair and condition;
- **Lessor's Obligations**

The Lessor covenants as follows:

- to give the Grower quiet enjoyment of the Sandalwood Lot(s);
  - that there are no mining tenements adversely affecting the Grower's interests;
  - that all subleases will be in the same form or to the same effect.
- **Termination by the Lessor**

The Lessor may terminate the Lease if the Grower defaults in relation to the payment of money due and payable and the default continues for six months or the Grower commits any breach or default in the due and punctual observance of any of the 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.

**The management section includes provisions to the following effect:**

- **Appointment of Responsible Entity as Manager**

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

- **The Services**

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

(a) Establishment Services

The Responsible Entity must supervise and manage all commercial silvicultural activities to be carried on by the Grower on the Sandalwood Lot(s) and without limiting the generality of the foregoing must:

- acquire appropriate seeds and seedlings;
- carry out weed control, surveying and ground preparation of the



Sandalwood Lot(s);

- plant on the Sandalwood Lot(s), in accordance with good silvicultural and forestry practices, sufficient Sandalwood seedlings or trees, which would reasonably be expected to produce harvestable Timber within 15 years from the Commencement Date at a rate which would reasonably provide a survival rate of 416 trees per hectare 12 months after the date of planting;
- plant on the 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 Sandalwood Lot(s);
- irrigate, cultivate, tend, cull, prune, fertilise, replant, spray as required in support of planting;
- use all reasonable measures required in support of planting by fumigating and poisoning for exterminating and keeping the Sandalwood Lot(s) free from rabbits and other vermin.

(b) Ongoing Services

The Responsible Entity must supervise and manage all commercial silvicultural activities to be carried on by the Grower on the Sandalwood Lot(s) and without limiting the generality of the foregoing must:

- irrigate, cultivate, tend, cull, prune, fertilise, replant, spray, maintain and otherwise care for the Trees as and when required;
- plant on the 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 Sandalwood Lot(s);
- replant the Sandalwood Lot(s) or part thereof with sufficient seedlings or trees to ensure that there are 416 Sandalwood seedlings or trees per hectare at the end of the First Period;
- keep in good repair any access road or roads to the Sandalwood Lot(s);
- use all reasonable measures by fumigating and poisoning for, exterminating and keeping the Sandalwood Lot(s) free from 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 Sandalwood Lot(s) or the Grower in respect thereof;
- maintain in good repair and condition adequate fire-breaks in and about the Sandalwood Lot(s);
- maintain the Sandalwood Lot(s) according to good silvicultural and forestry practices;
- furnish to the Grower reports as and when required by the Lease and Management Agreement and the Constitution;
- carry out, or arrange to be carried out, the Harvest and Processing of the Trees in a manner which maximises the return for the Grower; and
- 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.

(c) Selling and Marketing Services

The Responsible Entity must:

- supervise and manage the negotiating and making, at the maximum practicable price available, sales of the Forest Produce, 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 Sandalwood Lot(s) occurs;
  - 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;
  - 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;
  - maintain an international database of all potential buyers of Sandalwood in the years preceding harvest;
  - 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 an impending harvest;
  - generate interest in Sandalwood as an end product so as to stimulate demand for the Forest Produce; and
  - 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.
- **Management Fees**

The 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:

**A Establishment Fee**

<b>Number of Sandalwood Lots Applied For by Applicant</b>	<b>Establishment Fee Per Sandalwood Lot (GST exclusive)</b>	<b>Establishment Fee Per Sandalwood Lot (GST inclusive)</b>
1	\$8,500	\$9,350
2 - 4	\$8,250	\$9,075
5 - 9	\$8,000	\$8,800
10 -24	\$7,750	\$8,525
25 and above	\$7,000	\$7,700

**B First Period Fee**

<b>Number of Sandalwood Lots Held by Grower</b>	<b>First Period Fee Per Sandalwood Lot (GST exclusive)</b>	<b>First Period Fee Per Sandalwood Lot (GST inclusive)</b>
1	\$2,272.73	\$2,500
2 - 4	\$2,227.27	\$2,450
5 - 9	\$2,181.81	\$2,400
10 –24	\$2,045.45	\$2,250
25 and above	\$1,818.18	\$2,000

**C Annual Fee**

<b>Number of Sandalwood Lots Held by Grower</b>	<b>Annual Fee Per Sandalwood Lot (GST exclusive)</b>	<b>Annual Fee Per Sandalwood Lot (GST inclusive)</b>
1	\$1,136.36	\$1,250
2 - 4	\$1,113.64	\$1,225
5 - 9	\$1,090.91	\$1,200
10 –24	\$1,045.45	\$1,150
25 and above	\$909.09	\$1,000

• **Method of Payment of Fees**

The Grower must elect, on the Application, one of the following payment options with respect to the payment of the First Period Fee, the Annual Fee and the rent until the expiration of the Term:

- payments to be made annually before 30 September in each year during the Term commencing on the first day of the First Period; or
- a discounted prepayment of the total Fees and rent in 1 instalment of \$12,000 (which is exclusive of GST) which must be lodged with the application (in which case the sliding scales set out above will not apply); or

If the Grower fails to elect a preferred payment method on the Application, the Grower will be deemed to have elected the annual payment method.

▪ **Harvesting and Processing**

The Responsible Entity will Harvest and Process produce from the Sandlwood Lot(s) and will be reimbursed the Costs of Harvesting and Processing.

▪ **Sale of Timber**

The Grower is deemed to have appointed the Responsible Entity as agent for the purpose of making sales of Forest Produce. The Responsible Entity will receive 5% of the Gross Proceeds of Sale in return for performing the Selling and Marketing Services.

▪ **Proceeds of Sale**

The Responsible Entity must:

- deposit the Gross Proceeds of Sale into the Proceeds Fund;
- apply the Grower's Proportional Share of the Proceeds Funds to pay any amounts payable by the Grower under to the terms of the Lease and Management Agreement or the Constitution; and
- distribute the remainder to the Grower.

• **Incentive Fee**

The Responsible Entity will receive an Incentive Fee of 25% of the amount by which actual Net Proceeds of Sale exceed Target Net Proceeds of Sale (as specified in this Product Disclosure Statement). The amount (if any) of the Incentive fee for Electing Growers, will be determined by taking an estimate of the Net Proceeds of Sale that would have been payable had the Electing Grower received Net Proceeds of Sale.

• **Termination by Growers**

The Growers may terminate the Lease and Management Agreement after any of the following events:

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

• **Delegation**

The Responsible Entity may, in its absolute discretion, delegate all or any of the duties or obligations to be performed or observed by it under the management section of the Lease and Management Agreement but will retain liability for the performance of those duties and obligations.

• **Right to Produce**

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

from the Sandalwood Lot(s).

- **Grower's Recommendations**

A Grower may give written notice to the Responsible Entity setting out the opinion or recommendation of the Grower with respect to any matter relating to the Services or any other matter which is the subject of the management section of the Lease and Management Agreement and the Responsible Entity must give due consideration to the recommendation and use its best endeavours to carry out any reasonable recommendation.

- **Responsible Entity's Report**

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

- **Insurance**

The Responsible Entity is obliged to obtain public risk insurance in relation to the Project for an amount not less than \$5 million.

If requested by a Grower the Responsible Entity must use its best endeavours to arrange insurance of the trees located on the Grower's Sandalwood Lot(s). A fee of 5% of the premium (exclusive of GST) will be charged.

Insurance premiums will be borne, in the case of public risk insurance by the Responsible Entity and in the case of insurance of the trees by the Growers.

The Responsible Entity will apply the 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 Grower before holding the balance for the Grower.

- **Termination by the Responsible Entity**

If a Grower defaults in relation to the payment of money and the default continues for a period of 10 days or the 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, the Responsible Entity may terminate the Management Agreement.

- **Retirement of Responsible Entity as Manager**

The Responsible Entity may retire upon giving three months notice to the Grower provided it has first nominated another corporation or person to be the new responsible entity of the Project.

- **Appointment of New Responsible Entity as Manager**

Upon the removal of the Responsible Entity or retirement of the Responsible

Entity the Growers by ordinary resolution may appoint another person or corporation to be the responsible entity of the Project.

- **Responsible Entity's Undertaking**

Except for the payment of rent the Responsible Entity agrees to duly and punctually observe and perform the Grower's covenants contained in the Lease and Management Agreement and to indemnify the Grower against the consequences of any failure by it to observe and perform those covenants.

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

- **Assignment of Agreement**

The Grower (if it has not defaulted under the Lease and Management Agreement) may assign the Lease and Management Agreement provided:

- it can prove to the satisfaction of the Responsible Entity and the Lessor that the proposed assignee is a respectable, responsible and solvent person; and
- the ingoing party enters into a deed with the Responsible Entity and the Lessor in a form approved by the Responsible Entity;

- **Power of Attorney**

The Grower irrevocably appoints the Responsible Entity as its attorney with full power in the name of the 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 Grower by the Lease and Management Agreement.

- **Authority**

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

- **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.

- **Tax**

Any tax or impost (including without limitation a goods and services tax) 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 Grower.

### **3.4 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.

### **3.5 HEAD LEASE**

Pursuant to this agreement dated 8 December 2001, the Head Lessor has leased the Plantation to the Lessor. The Plantation is security for a loan of approximately \$1.6 million by the National Australia Bank to the Head Lessor. The National Australia Bank holds registered Mortgage H504113 over the Plantation. The Head Lessor has expressly consented to the Lessor sub-leasing Sandalwood Lots to Growers.