

SUPPLEMENTARY PRODUCT DISCLOSURE STATEMENT

TFS SANDALWOOD PROJECT 2005 (ARSN 113 492 890)

Important Information

This document is a Supplementary Product Disclosure Statement and should be read together with the Product Disclosure Statement dated 30 March 2005 (**Original Product Disclosure Statement**) issued by TFS Properties Ltd (ABN 31 093 330 977) for interests in the TFS Sandalwood Project 2005 (ARSN 113 492 890) (the **Project**).

This Supplementary Product Disclosure Statement is dated 20 June 2005 being the date that its preparation was completed.

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

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

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

Supplementary Information

1. Exclusion of Grower's costs and cashflows – Section 2.3 (Tables)

Tables 3a, 3b and 3c on pages 14-17 (inclusive) of the PDS contain a summary of a Grower's costs and cashflows in respect of an investment in the Project.

In addition to the exclusions contained in note 6 to Tables 3a and 3b and note 4 to Table 3c, investors should note that Tables 3a, 3b and 3c do not include any costs associated with harvesting, processing, storing and transporting the products which were estimated in present day costs by the Expert Forester as between \$7,000 and \$8,000 per hectare. Each Sandalwood Lot is one half (0.5) of a hectare. Accordingly, the estimated cost of harvesting, processing, storing and transporting the products per Sandalwood Lot is between \$3,500 and \$4,000.

2. Incentive Fee – Section 2.3(g)

Section 2.3(g) identifies the Incentive Fee that may be payable by a Grower to the Responsible Entity in respect of a Grower's Sandalwood Lot(s). Specifically, this section states that:

"the Responsible Entity will deduct a Fee of 27.5% of the amount (if any) by which the actual Net Proceeds of Sale realised exceed Target Net Proceeds of Sale. The Target Net Proceeds of Sale is set at \$500,000 per Sandalwood Lot in accordance with the terms of the Lease and Management Agreement."

Please note the Target Net Proceeds of Sale set at \$500,000 per Sandalwood Lot is in future dollar terms. This means, in an inflationary environment, \$500,000 is a lower Target Net Proceeds of Sale than what \$500,000 represents today.

3. Price Assumptions – Section 2.6 (c) (i)

Section 2.6(c)(i) contains a summary of the price assumptions in calculating the investment returns for an investment in the Project. Specifically, it states that:

“The wood price is affected by the oil content, with wood of a higher oil content being preferred. It is therefore possible that the plantation heartwood may trade at a discount to the wood sold at auction, which discount may be in the range of 20% to 25% commensurate with the possible lower oil content.”

By way of clarity to this statement, the Expert Forester has confirmed to TFS Properties that the wood from the Project is likely to contain 3% to 3.5% oil content. This represents around 25% less than the oil from wood sold at the Indian auctions in Tamil Nadu which contain 4.5% to 5.5% oil content. As confirmed in Mr Padmanabha’s report, the price of wood will be affected by both the colour and the oil content which in turn are interrelated. As the wood from the Project may have approximately 25% less oil content than Indian grown wood (ie 3% to 4% as opposed to 4.5% to 5.5%), it is reasonable to assume that the wood sold at auction may be discounted in the region of 20% to 25%.

4. Investment Returns – international prices – Section 2.6(c) (ii)

Section 2.6 of the PDS sets out the assumptions that TFS Properties has made in calculating the investment returns of an investment in the Project. Specifically, under the heading “Additional Revenues” on page 21 of the PDS it states that:

“ There is potential for TFS Properties to earn additional revenues and improve returns for investors through (inter alia) direct sales to the international market, which pays a significant premium, estimated as being as high as 30% greater than the Indian auction price.”

Our reference to “30%” in the above paragraph was incorrect. It should in fact refer to approximately 27% as indicated in the Expert Sandalwood Marketing Report at page 57.

This section also states that there is potential for TFS Properties to earn additional revenues and improve returns for investors through alternative uses of branches, prunings etc that would otherwise be discarded.

Although the above statement was included in the PDS, the Directors now consider that this benefit is considered to be too remote to be deemed a benefit for proposed investors when considering whether to proceed with an investment in this Project. Accordingly, investors should disregard this as a potential benefit to an investment in the Project.

5. Assessment of yield forecasts to date – Section 2.6(f)

Section 2.6(f) of the PDS contains a commentary on the assessment of the yield forecasts to date in respect of four Trees.

In reference to this section, investors should note that although the Directors consider the results encouraging, the data contained in this section is from a very small sample and, prior to further testing on 8 year old plantation trees confirming these results, should not be regarded as representative of the heartwood and oil production that can be extracted from an 8 year old plantation.

6. Distillation of Oil – Processing to Sandalwood Oil – Sections 2.6 and 4.9

There is a discussion in sections 2.6(c)(ii), 2.6(h) and 4.9 of the PDS about the distillation of Sandalwood oil and the potential benefits of distillation of Sandalwood oil.

However, the Director's have considered these statements and have determined that the benefit of TFS Properties distilling its own Sandalwood oil from your Trees prior to any feasibility study being successfully concluded is considered to be too remote to be deemed a benefit for proposed investors when considering whether to proceed with an investment in this Project.

Accordingly, the references to potential benefits that could be achieved from the distillation of Sandalwood oil in Sections 2.6(c)(ii), 2.6(h) and 4.9 of the PDS should be disregarded by potential investors.

7. Downloaded PDS – missing pages 24 and 25

It has come to the Directors attention that part of page 24 and all of page 25 of the PDS are missing from downloaded PDS's from the website: www.tfsltd.com.au (**Downloaded PDS**). By way of completeness to those investors that have accessed a Downloaded PDS for the purpose of an investment, the text of pages 24 and 25 is hereby included:

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“g. other considerations

TFS Properties has reconfirmed its commitment to the Sandalwood industry. It is actively investigating the markets for its end products, as well as the development of new products that might make use of parts of the tree that have not been considered. It has also commenced a Scoping Study on all aspects of Processing and Harvesting its wood, including consideration of alternative technologies available for downstream processing into oil.

h. processing to sandalwood oil

TFS Properties believes the best way to enter the market is to distil its own Sandalwood oil from your trees, hence producing a product that would be recognised for its consistency, reliability of supply, quality and environmental and ethical benefits. The lack of the above in the current industry is the reason as to why some perfume companies have ceased consumption of natural Sandalwood oil.

If TFS Properties proceeds with its own oil distillation facility it intends to share the benefits with you, thereby providing the potential for you to earn revenues greater than if you were merely selling wood logs.

The mechanism for providing this benefit sharing has not been finalised, but will most likely involve an investment by TFS Properties for which it will receive a reasonable return on capital, with the balance of revenues shared by all Growers. TFS Properties will also be rewarded through the Incentive Fee (Section 2.3(g)) and higher revenues through its 5.5% Selling and Marketing Fee.

i. return assumptions

The assumptions set out above are subject to significant uncertainties, many of which are outside the control of the Responsible Entity and its Directors. You should make your own assessment of the Project based on the information set out in this PDS and based upon advice from your financial adviser.

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3.0 about Sandalwood

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

3.1 past and present

The mystique and romance, and the use of Sandalwood in everyday life, has been part of Asian, Pacific and Indian cultures for over 2,000 years. The oil extracted from the heartwood of the Sandalwood tree is among the oldest known perfumery materials. The oil has also been used for thousand of years as a medicine and an embalming tool, which may lead to significant potential use for Sandalwood oil in the pharmaceutical and therapeutic industries.

The Sandalwood timber is sought after for woodcarvings and for incense sticks burned during religious ceremonies throughout the greater Asian region.

There are 15 known species of Sandalwood, five of which occur in Australia. The most widespread is Santalum spicatum, a native to Western Australia, which has generated significant export revenue for the State.

Santalum album, which is commonly known as Indian Sandalwood and is 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.

Of even more significance, however, is the period of time required before harvest. The native Western Australian Sandalwood, which grows in semi-arid to arid conditions, can take up to 50 years to reach maturity. The Indian Sandalwood grown in a tropical environment and on fully irrigated and fertile soils is expected to approach commercial maturity between 13 to 15 years.

The Plantation to be established is based on 16 years of research both by the Western Australian Department of Conservation and Land Management ('CALM') and commercial operators, including TFS, who have planted in the region since 1997.

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. Further, the dwindling supplies of wood from India are likely to see that country emerge as a significant importer of wood.

3.3 supply

The historical sources of supply of Sandalwood have been India, Indonesia and Western Australia, with India accounting for over 75% of total annual world production. Supply from Indonesia has virtually ceased while Western Australia's spicatum wood supply remains constant at about 2,000 tonnes per annum.

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

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

8. About Sandalwood – further comments – Section 3

The Directors have considered Section 3 of the PDS and wish to add some additional information as set out below.

Indian Sandalwood genus *Santalum album* and Australian Sandalwood genus *Santalum spicatum* are quite different in their oil composition, fragrance, growth regime, climatic environment and price. The oil composition of *Santalum spicatum* is, from a chemical point of view, quite different and whereas Indian Sandalwood will grow to maturity in 15 years under irrigation and is a tropical hardwood, Australian Sandalwood is an arid climate slow growing tree that can take up to 30 years to mature. Australian Sandalwood sells for about US\$8,000 per tonne compared with Indian Sandalwood which currently sells for around US\$60,000 per tonne on average.

Based on advice of a world expert in Indian Sandalwood, Mr Anantha Padmanhabha, there is no man made plantation of Indian Sandalwood of any commercial significance anywhere in the world, except in the ORIA.

Page 57 of the PDS (contained in the Expert Sandalwood Marketing Report) states that:

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

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

By way of clarity to the statement made in the Expert Marketing Report on page 57 pertaining to the effect on wood production from Australian producers, investors should note that the opinion provided therein is not limited to plantations managed by TFS Properties but includes the only other Australian plantation, managed by Integrated Tree Cropping, which is also situated in the ORIA and has an area of some 350 hectares.

9. Insurance – Section 7.5

Section 2.3(f) and Section 7.5 sets out information pertaining to insurance in relation to the Plantation.

Investors should note that it may be difficult for a Grower to independently obtain insurance cover over his or her own Sandalwood Lot having regard to the fact it is a unique and rare insurable interest which insurers may have difficulty ascribing a value to enable a premium to be calculated.

As conveyed in the PDS, TFS Properties will insure the Plantation on its own behalf against the obligation to re-plant during the Establishment Period. At the request of a Grower for the period after the Establishment Period, TFS Properties will refer a Grower to a licensed insurance broker who will arrange a policy in the name of TFS Properties but for the benefit of a Grower. A Grower would need to provide TFS Properties and the insurance broker with authorisation to arrange this insurance in the name of TFS Properties. If a Grower obtains finance from Arwon Finance Pty Ltd, it will be a condition of that finance to insure their Sandalwood Lot(s) after the Establishment Period.

As it is a matter for a Grower to determine whether or not to take insurance after the Establishment Period (unless the Grower is indebted to Arwon Finance Pty Ltd in respect of their Sandalwood Lot(s)), the cost of insurance is not referred to in any of the tables in Tables 3a, 3b or 3c.

10. Expert Forester's Report – Section 8.1

Section 8.1 contains an Expert Forester's Report prepared by Kimber Environment Services.

The following paragraph from page 51 should be deleted from the Expert Forester's Report as TFS Properties has no intention to cooperate in the future with other local plantation owners in respect of Indian Sandalwood:

"The Responsible Entity proposes to conduct the main harvest over a period of up to 3 years in order to ensure a sustainable annual supply of Indian Sandalwood from Western Australia, in cooperation with other local plantation owners."

11. Definition of Lease and Management Agreement – Section 10

The definition of "Lease and Management Agreement" in Section 10 should be amended to read:

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

12. Consent

Kimber Environment Services Pty Ltd has given, and not before issue of this Supplementary PDS withdrawn, its consent to the issue of this Supplementary Product Disclosure Statement with the amendments to the Expert Forester's Report being included in this Supplementary Product Disclosure Statement and the reference to its name in section 3 of this Supplementary Product Disclosure Statement in the form and context in which they are included.

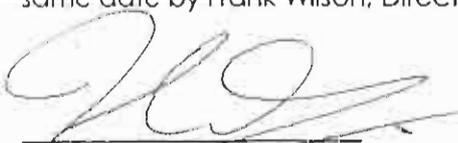
Anantha Padmanabha has given, and not before issue of this Supplementary Product Disclosure Statement withdrawn, its consent to the issue of this Supplementary Product Disclosure Statement with the amendments to the Marketing Report and section 3.2 in the PDS being included in this Supplementary Product Disclosure Statement in the form and context in which they are included.

True copies of the consents are available for inspection without charge at the registered office of TFS Properties.

13. Director's Authorisation and Responsibility Statement

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

This Supplementary Product Disclosure Statement was completed on 20 June 2005 and signed on the same date by Frank Wilson, Director of TFS Properties Limited.



Frank Cullity Wilson
For and on behalf of
TFS PROPERTIES LIMITED