

11 November 2019

Dear Grower

## RESPONSE TO THE SGC

On 30 October 2019, the Sandalwood Growers Co-op (“SGC”) sent a letter to growers titled “Moving Forward”. For the reasons explained below, this letter is inaccurate and self-serving.

The facts are:

- The SGC is not a Responsible Entity <sup>1</sup>. The SGC does not provide forestry or management services to any MIS project. The SGC does not provide sales and marketing services to any MIS project.
- The SGC was the former forestry manager and sales and marketing agent of 8 hectares of MIS plantations (TFS2002). These trees were harvested by the SGC from August 2018 <sup>2</sup>. Well over a year later, none of this harvest has been sold. No cash has been returned to growers in respect of the 8 hectares managed by the SGC.
- In September 2018, Quintis (as forestry manager) harvested 17 hectares of MIS grower trees from the TFS2003 project. This wood was sold by an independent sales agent, Smith Agri, earlier this year <sup>3</sup>. All proceeds have been paid to growers by the Responsible Entity.
- Huntley Management Limited (“Huntley”) is Responsible Entity for the TFS2002 to TFS2005 projects. Huntley is entirely independent of all entities in the Quintis Group and in Quintis' view is working diligently to protect the interests of all growers. Sandalwood Properties Limited, a Quintis Group entity, is Responsible Entity for TFS2006 to TFS2016.

The SGC has consistently failed the MIS growers in TFS2002:

- On 23 July 2018, the SGC announced an offer of \$130,000 per tonne for the TFS2002 wood <sup>2</sup>. Today, 17 months later, none of this wood has been sold. No evidence of this purported offer has ever been provided to the Responsible Entity <sup>8</sup>.
- On 12 June 2019, the SGC claimed “a contract for sale” of the TFS2002 wood at a price of \$100,000 per tonne <sup>4</sup>. Again, no sale has completed and the wood remains unsold.
- Last month, the SGC wrote <sup>5</sup> to Huntley (Responsible Entity of TFS2002) and offered to buy the harvest for itself for \$54,000 per tonne. This offer was self-serving and below market value - SGC's offer price was:
  - 58% below the SGC's claim from July 2018;
  - 46% below the SGC's claim from June 2019;
  - 39% below the \$88,000 per tonne realised by Smith Agri in August 2019 <sup>3</sup> for the TFS2003 harvest; and
  - 32% below the 2017 price (\$79,000 per tonne) that the SGC has consistently criticised as “opportunistic” <sup>6</sup> and “miserable” <sup>4</sup>.
- The SGC claimed its harvest of TFS2002 yielded 32 tonnes of heartwood <sup>7</sup>. Potential buyer, AuSantal, described by the SGC itself as a “credible buyer” <sup>4</sup>, withdrew its offer as it was “not satisfied with the quantity and quality of the timber resource” <sup>5</sup>. AuSantal measured 21.9 tonnes of heartwood <sup>8</sup>, some 31% below SGC's claim.
- The SGC's harvesting costs (which are deducted from growers' harvest proceeds) were approximately \$46,000 per hectare <sup>8</sup>, more than 7 times the \$6,500 per hectare charged by Quintis to TFS2002 project in January 2018.

The letter from the SGC also makes a range of other claims about Quintis, which are rejected by the Quintis Group. By way of example:

- There is no contractual or commercial relationship between Quintis and Smith Agri, nor has there ever been.
- Quintis harvested part of the trees owned by the TFS2003 project in 2018, when the trees were 15 years old. No trees were harvested early. This harvest has been fully sold and all the proceeds distributed to the TFS2003 growers.
- Quintis' Forestry division is led by Steve Hindley<sup>9</sup>, a forester with over 20 years experience. Steve has a Bachelor of Forestry Science from the University of Canterbury and an Executive MBA from the Massey University, Wellington. Steve is a member of the Institute of Forestry in New Zealand and the Institute of Foresters in Australia.
- Quintis has never employed a forester by the name of "Alan Rose Gardener" (whom the SGC claimed recently resigned).
- Quintis is not being sued by any of its current High Net Worth growers. One former High Net Worth grower (Frank Wilson, a founder and former-Director of the SGC) has commenced a legal action against Quintis which is currently before the Courts. Relevantly:
  - In July 2019, the Supreme Court of Western Australia found that Mr Wilson owes Quintis \$14 million plus costs<sup>10</sup>;
  - In his judgment, the Honourable Justice Martin described Mr Wilson's evidence as "unreliable, implausible, self-serving and inconsistent"<sup>10</sup>;
  - The Australian Securities & Investments Commission ("ASIC") has commenced civil proceedings against Mr Wilson for failing to properly discharge his duties as a Director<sup>11</sup>; and
  - In November 2018, ASIC intervened to impose licence conditions on the Responsible Entity to limit the involvement of Mr Wilson. ASIC will withdraw the licence if Mr Wilson is a Director of the SGC or provides services to the licensee<sup>12</sup>.

If you have any questions about your sandalwood investment, please do not hesitate to contact us at [info@quintis.com.au](mailto:info@quintis.com.au) or (08) 6458 4700.

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Sources:

- 1 Responsible Entity for the purposes of the Corporations Act.
- 2 SGC press release, 23 July 2018.
- 3 Huntley letter to TFS2003 Growers, 21 August 2019.
- 4 SGC letter to growers, 12 June 2019.
- 5 Huntley email to growers, 3 October 2019.
- 6 SGC letter to growers, January 2018.
- 7 SGC letter to growers, 26 March 2019.
- 8 Huntley letter to TFS2002 Growers, 26 September 2019.
- 9 Experience and biography of Steve Hindley are available at:  
<https://quintis.com.au/corporate/our-profile/board-and-executive/executive-team/>
- 10 Citation: Arwon Finance Pty Ltd -v- Wilson WASC 244, delivered on 5 July 2019.
- 11 Refer to ASIC case 18-174MR.
- 12 Australian Financial Services Licence (AFSL) for Huntley Management Limited.