

T.F.S. CORPORATION LTD
AND ITS CONTROLLED ENTITIES
A.B.N. 97 092 200 854

Un-audited Interim Financial Report
For the three months ended 30 September 2016

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
UN-AUDITED INTERIM FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

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T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
RESULTS FOR ANNOUNCEMENT TO MARKET
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

	Percentage change			30 SEP 2016 \$'000	30 SEP 2015 \$'000
Revenue					
Revenue (Cash*)					
Revenue from establishment fees and land sales	Down	42.3%	to	13,759	23,853
Revenue from recurring fees	Down	1.0%	to	4,328	4,372
Revenue from product sales	Down	12.0%	to	5,780	6,569
Interest revenue	Down	1.2%	to	1,398	1,415
Other revenue	Up	88.7%	to	4,549	2,411
Revenue (Non-Cash*)					
Revenue from recognition of deferred fees	Down	20.2%	to	7,954	9,966
Fair value gain / (loss) of biological assets	Down	102.6%	to	(1,844)	71,375
Other revenue	Up	100.0%	to	149	-
Total revenue and other income from ordinary activities	Down	70.0%	to	36,073	119,961
EBITDA					
Cash EBITDA	Down	90.1%	to	566	5,732
Non Cash EBITDA	Down	88.9%	to	8,647	77,595
TOTAL EBITDA	Down	88.9%	to	9,213	83,327
Net profit / (loss) after tax					
Net profit / (loss) after tax (Cash*)	Down	436.1%	to	(12,877)	(2,402)
Net profit / (loss) after tax (Non Cash*)	Down	90.4%	to	5,712	59,469
Net profit / (loss) from ordinary activities after tax	Down	112.6%	to	(7,165)	57,067

				30 SEP 2016 Cents	30 SEP 2015 Cents
Earnings Per Share					
Basic EPS (Based on net profit / (loss) after tax)	Down	110.8%	to	(1.85)	17.04
Diluted EPS (Based on net profit / (loss) after tax)	Down	110.9%	to	(1.80)	16.53

Net Tangible Assets per Share				30 SEP 2016 Cents	30 JUNE 2016 Cents
Net tangible asset backing per ordinary share	Down	3.8%	to	123.38	128.29

***Definition of Cash / Non Cash**

The Group's Cash EBITDA / Cash NPAT is stated after eliminating / adjusting the following:

- Fair value gain / (loss) of biological assets;
- Revenue from recognition of deferred lease and management fees;
- Change in the fair value of land and buildings;
- Accounting treatment relating to the business combination transactions;
- Realised biological fair value gain / (loss) attributable to wood and oil products sold; and
- Unrealised foreign exchange gain / (loss).

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

DIRECTORS' REPORT

Your Directors present the un-audited financial report of T.F.S Corporation Ltd and its consolidated entities ("the Group") for the three months ended 30 September 2016.

DIRECTORS

The names of the Directors in office any time during or since the period end are:

Mr Dalton Gooding (Chairman)
Mr Frank Wilson (Managing Director)
Mr Julius Matthys (Deputy Chairman)
Mr John Groppoli
Ms Gillian Franklin
Mr Michael Kay

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

REVIEW OF OPERATIONS

Operating results

The Group's results reflect consistent seasonality due to the timing of revenue and receipts from plantation sales, which are typically weighted towards the fourth quarter of the year. The Group expects to derive significantly higher product sales revenue in the year to 30 June 2017 than in previous years, following the tenfold increase in harvest in 2016. The revenues from this harvest commenced in September and October 2016 with the first deliveries to the Group's customers in China and the essential oil market in the US.

The consolidated net loss after tax of the Group for the three-month period amounted to \$7.165m (30 September 2015: profit of \$57.067m) which was largely due to an unrealised foreign exchange loss on the Group's biological assets. The USD exchange rate moved from 1.429 AUD at 30 September 2015 to 1.309 AUD at this reporting date which generated a fair value loss of \$1.844m, compared to fair value gain of \$71.375m in the prior year.

Total revenues for the period of \$37.745m (30 September 2015: \$48.591m) included \$30.564m (30 September 2015: \$40.607m) relating to revenue from sales and services.

The Group's sales of financial products are heavily weighted towards the second half of the Group's financial year. Therefore, as in prior years, the results of the first three months of the financial year tend not to be representative of the full year's results. The Group expects to derive significant cash inflows from operating activities in the second half of the year and reaffirms its guidance for Cash EBITDA for the year to 30 June 2017 to be at least 25% up on Cash EBITDA in the year to 30 June 2016.

In July 2016, the Group issued new Senior Secured Notes of US\$250.000m, due in 2023 and used the proceeds to redeem the Group's original Notes, issued in 2011 and due in 2018. The new issuance extended the maturity of the Group's debt by 5 years and reduced the Group's cost of debt by 20%. The refinancing also resulted in an early call premium payment of \$10.648m.

EVENTS AFTER THE REPORTING PERIOD

The Group declared a final fully franked dividend in respect for the year ended 30 June 2016 of 3 cents per share and this was paid on 8 November 2016.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, consisting of a large loop on the left and a long, horizontal stroke extending to the right.

Dalton Gooding
Chairman of the Board

Dated this 29th day of November 2016.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

	NOTE	30 SEP 2016 \$'000	30 SEP 2015 \$'000
Revenue	2	37,745	48,591
Other income	2	(1,672)	71,370
Direct plantation and other operating expenses		(11,083)	(14,516)
Raw materials and consumables used		(4,009)	(2,799)
Salaries and employees benefits expense		(9,570)	(6,677)
Corporate sales and administration expenses		(5,226)	(8,612)
Depreciation and amortisation expenses		(3,082)	(2,298)
Finance costs		(4,990)	(7,482)
Early call premium of 11% Senior Secured Note		(10,648)	-
Unrealised foreign exchange gain/(loss)		3,914	(20,923)
Fair value loss on contingent consideration liability		(628)	-
Fair value gain on biological assets – external MIS growers		(1,026)	19,363
Fair value loss on external MIS grower liabilities		1,026	(19,363)
Gain on acquisition of controlling interests		-	17,177
Profit / (loss) before income tax expense		(9,249)	73,831
Income tax (expense) / benefit		2,084	(16,764)
Profit / (loss) for the period		(7,165)	57,067
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit and loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		(54)	374
<i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods:</i>			
Revaluation of land and buildings (net of tax)		-	247
Total comprehensive income for the period		(7,219)	57,688
Earnings per share			
Basic earnings / (loss) per share [cents per share]	11	(1.85)	17.04
Diluted earnings / (loss) per share [cents per share]	11	(1.80)	16.53

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

	NOTE	30 SEP 2016 \$'000	30 JUN 2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents		106,600	106,993
Trade and other receivables	3	76,397	85,097
Inventories	4	45,170	24,985
Biological assets	5	-	28,247
Other financial assets		3,395	2,904
TOTAL CURRENT ASSETS		231,562	248,226
NON CURRENT ASSETS			
Trade and other receivables	3	53,579	54,554
Property, plant and equipment		164,992	161,713
Biological assets	5	769,646	742,961
Other financial assets	6	10,256	7,872
Intangible assets and goodwill	7	272,938	265,218
Other assets		11,667	11,414
TOTAL NON CURRENT ASSETS		1,283,078	1,243,732
TOTAL ASSETS		1,514,640	1,491,958
CURRENT LIABILITIES			
Trade and other payables		31,288	49,353
Financial liabilities	8	9,823	14,048
Current tax liabilities		4,582	7,333
Provisions		2,422	2,322
Unearned income		8,064	22,347
TOTAL CURRENT LIABILITIES		56,179	95,403
NON CURRENT LIABILITIES			
Provisions		3,455	3,291
Financial liabilities	8	513,521	442,105
Deferred tax liabilities		196,534	198,994
Unearned income		4,763	4,943
TOTAL NON CURRENT LIABILITIES		718,273	649,333
TOTAL LIABILITIES		774,452	744,736
NET ASSETS		740,188	747,222
EQUITY			
Issued capital	9	280,827	280,827
Asset revaluation reserve		6,990	6,990
Foreign currency translation reserve		2,245	2,300
Option/Warrant reserve		10,264	10,078
Retained earnings		439,862	447,027
TOTAL EQUITY		740,188	747,222

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 July 2016	280,827	19,368	447,027	747,222
Profit for the period	-	-	(7,165)	(7,165)
Other comprehensive income	-	(54)	-	(54)
Total comprehensive income for the period	-	(54)	(7,165)	(7,219)
Transaction with owners, in their capacity as owners, and other transfers				
Share based payments	-	185	-	185
Balance at 30 September 2016	280,827	19,499	439,862	740,188
Balance at 1 July 2015	188,948	18,450	367,125	574,523
Profit for the period	-	-	57,067	40,544
Other Comprehensive Income	-	621	-	621
Total comprehensive income for the period		621	57,067	41,165
Transaction with owners, in their capacity as owners, and other transfers				
Proceeds from the issue of shares	23,462	-	-	23,462
Share based payment	-	60	-	60
Balance at 30 September 2015	212,410	19,131	424,192	655,733

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

	30 SEP 2016 \$'000	30 SEP 2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipt from operations	17,858	15,796
Payments to suppliers and employees	(43,802)	(33,067)
Payments for land held for resale	(118)	(5,575)
Repayment of grower loans	4,273	4,882
Proceeds from sale of loan book	8,639	-
Interest received	1,398	1,415
Finance charges	(15,836)	(12,197)
Income tax paid	(3,126)	(751)
Net cash (used in) / provided by operating activities	(30,714)	(29,497)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of property, plant and equipment	78	12
Payments for plant and equipment	(5,901)	(6,357)
Acquisition of biological assets and investment in own plantation	(11,281)	(565)
Payments for land development	(514)	-
Payments for investments	-	(5,764)
Other	(40)	(132)
Net cash (used in) / provided by investing activities	(17,658)	(12,806)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	(266,190)	(4)
Payment of early call premium of 11% Senior Secured Note	(10,648)	-
Net proceeds from borrowings	324,818	-
Dividends paid	(1)	(2)
Net cash (used in) / provided by financing activities	47,979	(6)
Net decrease in cash held	(393)	(42,309)
Cash at the beginning of the period	106,993	72,674
Cash at the end of the period	106,600	30,365

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The un-audited interim financial report covers T.F.S. Corporation Ltd and its controlled entities (hereafter referred to as “the Group” or “TFS”). T.F.S. Corporation Ltd is a for-profit listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue on 29 November 2016 by the Board of Directors.

Basis of Preparation

These general purpose financial statements for the three-month period ended 30 September 2016 have been prepared in accordance with AASB 134: *Interim Financial Reporting*.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such, it does not contain information that represents relatively insignificant changes occurring during the period within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016, together with any public announcements made during the period.

The interim financial report has been prepared on an accruals basis and is based on historical costs, except for the Group’s Indian Sandalwood tree plantations (which are biological assets), external MIS grower liabilities, contingent consideration and land which have been measured at fair value. This report does not take into account changing money values or, except where stated, current valuations of non-current assets.

The Directors make estimates, judgements and assumptions based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group’s last annual financial statements for the year ended 30 June 2016, as set out in Note 1(z).

The interim financial statements are presented in Australian dollars and all values are rounded to the nearest (\$’000) unless otherwise stated.

Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2016.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Seasonality of Business

The plantation management segment is a provider of plantation establishment and management services for Indian Sandalwood plantations. Due to the seasonal nature of this segment, higher revenues and operating profits are usually expected in the second half of the financial year. Higher sales during the period May to June are mainly attributed to recognition of revenue in relation to the establishment of new plantations during the dry season in Northern Australia. The receipt of funds is also higher during May and June each year with the settlement of new plantation sales. This information is provided to allow for a proper appreciation of the results.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

NOTE 2: REVENUE AND OTHER INCOME

Sales revenue:

	30 SEP 2016 \$'000	30 SEP 2015 \$'000
Revenue from sales and services	30,564	40,607
Revenue from product sales	5,780	6,569
Interest on grower loans	1,141	1,130
Interest received	260	285
Total sales revenue	<u>37,745</u>	<u>48,591</u>

Other income:

Profit / (loss) on disposal of plant and equipment	23	(5)
Gain on settlement of trade debtor	149	-
Fair value gain of biological assets – T.F.S. interest	(1,844)	71,375
Total other income	<u>(1,672)</u>	<u>71,370</u>
Total revenue and other income	<u>36,073</u>	<u>119,961</u>

NOTE 3: TRADE AND OTHER RECEIVABLES

Current

Trade debtors	62,077	64,617
Allowances for impairment of receivables	<u>(332)</u>	<u>(332)</u>
	<u>61,745</u>	<u>64,285</u>

Loans to growers	11,998	15,706
Bonds and deposits	329	326
Prepayments	<u>2,325</u>	<u>4,780</u>
	<u>76,397</u>	<u>85,097</u>

Non Current

Loans to growers	53,398	54,373
Other receivables	<u>181</u>	<u>181</u>
	<u>53,579</u>	<u>54,554</u>

NOTE 4: INVENTORIES

At Cost:

Land held for resale	2,806	2,688
Finished goods	19,363	11,297
Seedlings at cost	411	251
Seed stock	587	391
Harvested trees	19,687	8,270
Raw materials	2,476	2,248
Less: Provision for obsolete stock	<u>(160)</u>	<u>(160)</u>
	<u>45,170</u>	<u>24,985</u>

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

NOTE 5: BIOLOGICAL ASSETS

Sandalwood plantation at cost:

	30 SEP 2016 \$'000	30 SEP 2016 \$'000	30 SEP 2016 \$'000
	TFS INTEREST ⁽ⁱ⁾	EXTERNAL MIS GROWER INTEREST ⁽ⁱⁱ⁾	TOTAL
Opening balance	275,466	54,619	330,085
Additions/disposal	10,966	1,611	12,577
Plantation re-acquired	560	-	560
Less: Harvested trees transferred to inventory	(19,429)	-	(19,429)
	267,563	56,230	323,793

Add: Fair value adjustment to Sandalwood plantation:

Opening balance	347,691	93,432	441,123
Fair value gain/(loss)	(1,844)	(1,026)	(2,870)
Additions/disposal	-	7,394	7,394
Less: Harvested trees transferred to inventory	206	-	206
	346,053	99,800	445,853

Total Biological Assets

	613,616	156,030	769,646
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Classified as current⁽ⁱⁱⁱ⁾

	-	-	-
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Classified as non-current

	613,616	156,030	769,646
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Sandalwood plantation at cost:

	30 JUN 2016 \$'000	30 JUN 2016 \$'000	30 JUN 2016 \$'000
	TFS INTEREST ⁽ⁱ⁾	EXTERNAL MIS GROWER INTEREST ⁽ⁱⁱ⁾	TOTAL
Opening balance	242,605	53,821	296,426
Additions/disposal	32,477	798	33,275
Plantation re-acquired	607	-	607
Less: Harvested trees transferred to inventory	(223)	-	(223)
	275,466	54,619	330,085

Add: Fair value adjustment to Sandalwood plantation:

Opening balance	278,588	66,217	344,805
Fair value gain/(loss)	76,893	21,695	98,588
Additions/disposal	-	5,520	5,520
Less: Harvested trees transferred to inventory	(7,790)	-	(7,790)
	347,691	93,432	441,123

Total Biological Assets

	623,157	148,051	771,208
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Classified as current⁽ⁱⁱⁱ⁾

	22,007	6,240	28,247
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Classified as non-current

	601,150	141,811	742,961
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(i) This represents plantations owned by TFS and TFS's direct interest within MIS projects.

(ii) The External MIS grower interest represents the third party grower interest in the biological assets in respect of certain MIS projects which are consolidated for accounting purposes. The Group has a restricted interest in these assets and the proceeds from the monetisation of these assets will be used to settle the external MIS grower liabilities.

(iii) Biological assets classified as current are expected to be harvested, processed and monetised within 12 months.

T.F.S. CORPORATION LTD
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NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

NOTE 5: BIOLOGICAL ASSETS

	30 SEP 2016 No.	30 JUN 2016 No.
Physical quantity of Indian Sandalwood trees - T.F.S. interest	1,063,841	1,146,656
Physical quantity of Indian Sandalwood trees – External MIS grower interest	274,134	270,963

Fair Value

The Group's biological assets relate to Indian Sandalwood trees growing on plantations located across the north of Australia. The fair value less costs to sell of the Indian Sandalwood trees has been determined in accordance with a Directors' valuation.

The fair value measurements for biological assets of \$769.646m, (June 2016: \$771.208m) have been categorised as Level 3 in the fair value hierarchy.

NOTE 6: OTHER FINANCIAL ASSETS

Non Current

	30 SEP 2016 \$'000	30 JUN 2016 \$'000
Cash deposit – First loss account	1,688	1,688
Cash deposit – Bank guarantee facility	3,491	3,491
Cash deposit – MIS custodian accounts	2,684	2,673
Cash deposit – Loan book facility	2,373	-
Other	20	20
	<u>10,256</u>	<u>7,872</u>

The MIS custodian accounts consist of 50% of establishment fees on new MIS sales and one year's annual and rent fees paid upfront by growers ("upfront annual and rent fees"). These fees are kept in an interest bearing account, which is maintained by an independent custodian. The establishment fees are released quarterly to the Group until completion of the establishment services. The upfront annual and rent fees will be applied in satisfaction of the annual fee and rent in year 14 of the applicable project. Prior to lease and management services being provided, an offsetting amount is recognised as unearned income.

T.F.S. CORPORATION LTD
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NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

	30 SEP 2016 \$'000	30 JUN 2016 \$'000
NOTE 7: INTANGIBLE ASSETS AND GOODWILL (NON CURRENT)		
<i>Intangible assets</i>		
Supply agreements – at cost	478	478
<i>Goodwill – at cost</i>		
Opening balance	32,291	20,205
Acquisition of a subsidiary	-	12,086
Closing balance	32,291	32,291
<i>Deferred lease and management fees – at cost</i>		
Opening balance	109,507	93,696
Recognition of deferred fees	10,216	21,970
Deferred fees realised upon tree buy back scheme	(110)	(2,038)
Deferred fees realised upon harvest	-	(422)
Impairment reversal / (allowance)	(2,152)	(3,699)
Closing balance	117,461	109,507
<i>In-process research and development – at cost</i>		
Opening balance	122,942	-
Acquisition of controlled entities	-	124,019
Amortisation	(234)	(1,077)
Closing balance	122,708	122,942
Total Goodwill and Intangibles	272,938	265,218

The current amortisation charges for intangible assets with finite useful lives are included under depreciation and amortisation expense as per the statement for profit or loss and other comprehensive income.

	30 SEP 2016 \$'000	30 JUN 2016 \$'000
NOTE 8: FINANCIAL LIABILITIES		
<i>Current</i>		
External MIS grower liabilities	-	6,240
Recourse loan ⁽ⁱ⁾	1,884	-
Contingent consideration	7,939	7,808
	9,823	14,048
<i>Non Current</i>		
Senior secured notes ⁽ⁱⁱⁱ⁾	319,594	272,505
External MIS grower liabilities	156,030	141,811
Recourse loan ⁽ⁱ⁾	9,611	-
Contingent consideration	28,286	27,789
	513,521	442,105

⁽ⁱ⁾ The liability arises from a part sale of the loan book signed on 29 June 2016. The sale contributed approximately \$8.9m in cash during the three months ended to 30 September 2016. The acquirer of the loan book has full recourse to TFS and as a result the liability has been recognised. The liability will continue to reduce as payments are collected from the growers. The corresponding asset is continued to be recorded as a receivable as a loan to growers in Note 3.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

NOTE 8: FINANCIAL LIABILITIES

⁽ⁱⁱ⁾ A total of US\$250 million has been raised from international debt markets from the issuance of 8.75% senior secured notes, with a maturity date of 1 August 2023. This liability has been converted to Australian dollars using an exchange rate of 1.309 (30 June 2016: 1.347). All principle in US dollars is payable at maturity date with interest to be paid semi-annually, in arrears on 1 February and 1 August of every year. On or after 1 August 2019 the Group may redeem some or all of the notes at a premium that will decrease over time as set out below:

1 August 2019 to 31 July 2020	106.563%
1 August 2020 to 31 July 2021	104.375%
1 August 2021 to 31 July 2022	102.188%
1 August 2022	100.000%

The notes are represented by one or more global notes and are listed on the Singapore Stock Exchange (SGX-ST) for trading.

The notes are secured by a fixed and floating charge over all the assets of the Group.

NOTE 9: ISSUED CAPITAL

388,090,145 fully paid ordinary shares (30 June 2016: 388,090,145)

30 SEP	30 JUN
2016	2016
\$'000	\$'000
<u>280,827</u>	<u>280,827</u>

Capital management

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital included ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the end of the prior financial year. The gearing ratios for the current period and past year end are as follows:

	30 SEP	30 JUN
	2016	2016
	\$'000	\$'000
Total borrowings	319,594	272,505
Less: Cash and cash equivalents	(106,600)	(106,993)
Net debt	<u>212,994</u>	<u>165,512</u>
Total equity	<u>740,189</u>	<u>747,222</u>
Total capital	<u>953,183</u>	<u>912,734</u>
Gearing ratio	22.35%	18.13%

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NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

NOTE 10: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

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NOTE 10: SEGMENT INFORMATION

The Group's operations involve the management and operation of forestry plantations, cultivation and sale of agriculture produce, the provision of finance, and the production and sale of Sandalwood oil and related products, including pharmaceutical products. All material operations are conducted in Australia and in USA.

Primary reporting in business segments

Operating segments

	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	30 SEP 2016 \$'000	30 SEP 2015 \$'000	30 SEP 2016 \$'000	30 SEP 2015 \$'000	30 SEP 2016 \$'000	30 SEP 2015 \$'000	30 SEP 2016 \$'000	30 SEP 2015 \$'000	30 SEP 2016 \$'000	30 SEP 2015 \$'000
Revenue										
Establishment fees	13,759	23,853	-	-	-	-	-	-	13,759	23,853
Lease and management fees	4,328	4,371	-	-	-	-	-	-	4,328	4,371
Product sales	-	-	-	-	5,780	6,569	-	-	5,780	6,569
Interest – external	251	273	1,145	1,142	1	-	-	-	1,397	1,415
Other – external	4,415	2,354	162	22	-	35	122	-	4,699	2,411
Other – internal	8,845	277	-	-	128	149	-	-	8,973	426
Accrued income recognition	7,954	9,967	-	-	-	-	-	-	7,954	9,967
Gain on fair value of plantation – T.F.S. interest	(1,844)	71,375	-	-	-	-	-	-	(1,844)	71,375
Total segment revenue	37,708	112,470	1,307	1,164	5,909	6,753	122	-	45,046	120,387
<i>Reconciliation of segment revenue to group revenue</i>										
Other income (refer to Note 2)									1,672	(71,370)
Inter segment revenue									(8,973)	(426)
Total group revenue from ordinary activities									37,745	48,591

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NOTE 10: SEGMENT INFORMATION

Operating segments

Plantation management	Finance	Sandalwood products	Pharmaceutical	Group
30 SEP 2016 \$'000	30 SEP 2015 \$'000	30 SEP 2016 \$'000	30 SEP 2015 \$'000	30 SEP 2016 \$'000

Result

Earnings before interest, tax,
depreciation and amortisation
(EBITDA)

17,877	60,889	1,240	1,143	596	4,843	(1,527)	(299)	18,186	66,576
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Reconciliation of segment EBITDA to group EBITDA

Inter segment profit

(8,973) (426)

Unallocated gain – Acquisition of controlling interest

- 17,177

Total group EBITDA

(9,213) 83,327

Segment result before income tax

(408)	68,735	1,248	1,154	416	4,670	(1,531)	(302)	(275)	74,257
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Reconciliation of segment result to group net profit before tax

Inter segment profit

(8,973) (426)

Amounts not included in segment results

Net profit before tax from continued operations

(9,249) 73,831

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NOTE 10: SEGMENT INFORMATION

Operating segments

	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	30 SEP 2016 \$'000	30 JUN 2016 \$'000	30 SEP 2016 \$'000	30 JUN 2016 \$'000	30 SEP 2016 \$'000	30 JUN 2016 \$'000	30 SEP 2016 \$'000	30 JUN 2016 \$'000	30 SEP 2016 \$'000	30 JUN 2016 \$'000
Segment Assets										
Segment Assets	1,199,024	1,199,345	73,465	72,947	49,354	46,759	139,124	137,324	1,460,967	1,456,375
Segment increases for the period:										
Capital expenditure	3,221	22,258	-	-	-	-	-	-	3,221	22,258
Acquisitions	2,590	7,211	-	-	213	1,325	-	-	2,803	8,536
	5,811	29,469	-	-	213	1,325	-	-	6,024	30,794

Reconciliation of segment assets to group assets

External MIS grower interest in biological assets									156,030	148,051
Inter segment receivables eliminated on consolidation									(102,357)	(112,468)
Total group assets from continuing operations									1,514,640	1,491,958

Segment Liabilities

Segment Liabilities	549,845	542,965	58,044	58,774	4,652	2,476	70,997	67,698	683,538	671,913
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Reconciliation of segment liabilities to group liabilities

External MIS grower liabilities									156,030	148,051
Inter segment eliminations									(65,116)	(75,228)
Total group liabilities from continuing operations									774,452	744,736

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NOTE 11: EARNINGS PER SHARE

	30 SEP 2016 \$'000	30 SEP 2015 \$'000
Earnings / (loss) used in calculating basic and diluted earnings per share	(7,165)	57,067

	30 SEP 2016	30 SEP 2015
	Number of Shares (thousands)	
Weighted average number of ordinary shares for basic EPS ⁽ⁱ⁾	388,090	334,837
Effect of dilution from warrants	9,376	10,327
Weighted average number of ordinary shares adjusted for effects of dilution ^{(ii), (iii)}	397,466	345,164

- (i) The weighted average number of ordinary shares takes into account the 916,255 shares to be issued at a future date relating to the acquisition of Santalis.
- (ii) Excludes contingently issuable shares relating to the acquisition of Santalis and ViroXis.
- (iii) The 30 September 2016 diluted EPS has been restated for the effect of dilution from warrants.
- (iv) The weighted average number of shares for EPS and Diluted EPS in respect of all periods presented has been adjusted by a conversion factor of 1.00 relating to the bonus element of the placements.

NOTE 12: SUBSEQUENT EVENTS

The Group declared a final fully franked dividend in respect for the year ended 30 June 2016 of 3 cents per share and this was paid on 8 November 2016.

NOTE 13: CONTINGENT LIABILITIES

- (i) A controlled entity is managing a portfolio of MIS grower loans on behalf of the Commonwealth Bank of Australia (CBA) and under the agreement the entity has a legal liability to indemnify the CBA for any defaulting grower loans. This legal liability is limited to \$1.688m, being the amount of cash available in the First Loss Account. The portfolio of loans consists of existing loans sold to the CBA in 2008 and direct grower funding for the TFS 2008 and TFS 2009 projects. Once indemnified the Group takes the loan back onto its balance sheet with the established Sandalwood trees acting as security over the receivable.
- (ii) Included in the sales to sophisticated investors during June 2014 are put options whereby the investor can elect to sell the trees back to the Group at the lower of market value or a predetermined price. These put options are eligible to be exercised in September 2018, and if exercised the Group would be required to pay the consideration in November 2018 and November 2019. If all the options were exercised the Group would be required to acquire the plantations from the sophisticated investors at the lower of a predetermined price of \$51.321m or market value. The Group has deemed the likelihood of the put options being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.
- (iii) Included in the sales to an institutional investor during June 2014 is a put option whereby the investor can elect to sell the trees back to the Group at a predetermined price, exercisable by 30 April 2017. If exercised the Group would be required to pay the consideration in September 2017. If the options were exercised the Group would be required to acquire the plantations from the institutional investor for \$33.924m. The Group has deemed the likelihood of the put option being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.

NOTE 14: FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's financial instruments consist of trade and other receivables, other financial assets (made up of cash deposits), trade and other payables and financial liabilities. These financial instruments are measured at amortised cost, less any provision for non recovery. The carrying amount of the financial assets and liabilities approximate their fair value.

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DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The un-audited financial statements and notes give a true and fair view of the Group's financial position as at 30 September 2016 and the performance for the three months ended on that date in accordance with Australian Accounting Standards.
2. In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Dalton Gooding
Chairman of the Board

Dated at Perth this 29th day of November 2016.