

TFS CORPORATION LTD

A.B.N. 97 092 200 854

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2015**

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CORPORATE DIRECTORY

DIRECTORS

Mr Dalton Gooding (Non-Executive Chairman)
Mr Frank Wilson (Chief Executive Officer)
Mr Julius Matthys
Mr John Groppoli
Ms Gillian Franklin
Mr Michael Kay

REGISTERED OFFICE / PRINCIPAL PLACE OF BUSINESS

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COMPANY SECRETARY

Mr Quentin Megson
Mr Simon Storm

SHARE REGISTRY

Link Market Services Limited
Level 4
Central Park
152 St Georges Terrace
Perth WA 6000

AUDITORS

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Perth, Western Australia

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DIRECTORS' REPORT

Your Directors present their financial report for the year ended 30 June 2015.

Directors:

The names and details of the Company's Directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Dalton Gooding	Non-Executive Chairman (appointed 16 October 2014)
Qualifications:	BBus, FCA
Experience:	Mr Gooding was formerly a long standing partner at Ernst & Young and is a Fellow of the Institute of Chartered Accountants in Australia. He has over 35 years' experience and is currently the Senior Partner of Gooding Partners where he advises a wide range of businesses with an emphasis on taxation and accounting issues, due diligence, feasibilities and general business advice.
Interest in shares and performance rights:	100,000 ordinary shares in TFS Corporation Ltd (0.03% of the company) at 30 August 2015
Interests in TFS Projects:	3.6Ha (2014: nil) of interests held in TFS Indian Sandalwood projects
Special responsibilities:	Audit Committee; Remuneration Committee (Chairman)
Directorships held in other listed entities in the last 3 years:	Brierty Ltd (appointed 26 October 2007) Katana Capital Ltd (appointed 11 November 2005) SIPA Resources Ltd (appointed 1 May 2003) Avita Medical Ltd (resigned 1 July 2014)
Frank Wilson	Chief Executive Officer
Qualifications:	LLB
Experience:	Mr Wilson is the founding Chairman of the TFS Group having been appointed on 28 March 2000. In December 2006 he was appointed to the role of Executive Chairman, a role which he held until 10 November 2011 when he resigned from the Board. On 12 June 2012 he was re-appointed to the Board in the role of Executive Director followed by the appointment as Executive Chairman on 3 October 2012. The Chairman's role was relinquished on the appointment of a Non-Executive Chairman on 17 September 2013. He was previously the Managing Partner of the legal firm Wilson & Atkinson, which specialises in taxation, property and commercial law. Mr Wilson is an experienced businessman, who has a long standing involvement in the forestry industry. He is also a governor of the University of Notre Dame.
Interest in shares and performance rights:	47,551,493 ordinary shares in TFS Corporation Ltd (14.00% of the company) at 30 August 2015 and 512,667 performance rights.
Interests in TFS Projects:	418.5Ha (2014: 417.5Ha) of interests held in TFS Indian Sandalwood projects
Special responsibilities:	Nil
Directorships held in other listed entities in the last 3 years:	None

DIRECTORS' REPORT

Julius Matthys

Director (Non-Executive)

Qualifications:

BCom

Experience:

Mr Matthys was appointed to the Board on 23 December 2011 and is an experienced senior executive with BHP Billiton. He has held senior roles in Iron Ore and Aluminium marketing with responsibility for global sales and customer relationships. From 2008 to 2011 he managed the Worsley Alumina Joint venture between BHP Billiton, Japan Alumina Associates and Sojitz Corporation. Worsley Alumina is one of the largest alumina refineries in the world producing 3.5 million tonnes of alumina per annum. He is currently Vice President Corporate Affairs for the BHP Billiton Group in Western Australia.

Interest in shares and performance rights:

3,342,500 ordinary shares in TFS Corporation Ltd (1.02% of the company) at 30 August 2015

Interests in TFS Projects:

1.3Ha (2014: 1.3Ha) of interests held in TFS Indian Sandalwood projects

Special responsibilities:

Compliance Committee (Chairman); Audit Committee

Directorships held in other listed entities in the last 3 years:

None

John Groppoli

Director (Non-Executive) (appointed 10 October 2014)

Qualifications:

LLB, BJuris, FAICD

Experience:

Mr Groppoli was appointed to the Board on 10 October 2014 and is an experienced lawyer. Mr Groppoli was a partner of a national law firm Deacons (now Norton Rose) from 1987 to 2004 where he specialised in franchising, mergers and acquisitions, and corporation governance. Mr Groppoli left private practice in 2004 and is currently Managing Director of RGM Equity whose business operations consist of the marketing and distribution of premium international homewares, optical products and accessories, occupational health and safety products and the provision of micro third party logistics / warehousing.

Mr Groppoli has been a Non-Executive Director of Automotive Holdings Group since July 2006 and is the Chairman of their Remuneration and Nomination Committees.

Interest in shares and performance rights:

Nil

Interests in TFS Projects:

Nil

Special responsibilities:

Audit Committee (Chairman); Remuneration Committee; Risk Management Committee

Directorships held in other listed entities in the last 3 years:

Automotive Holdings Group Limited (appointed 4 July 2006)

DIRECTORS' REPORT

Gillian Franklin

Director (Non-Executive) (appointed 1 December 2014)

Qualifications:

Corporate Director's Diploma

Experience:

Ms Franklin has extensive commercial experience and is Managing Director and founder of The Heat Group, an Australian distributor of leading cosmetic brands. Over the past 15 years, Ms Franklin has expanded The Heat Group into the largest Australian-owned cosmetics company, distributing international brands such as Max Factor and COVERGIRL as well as an expanding portfolio of its own brands. Ms Franklin has previously held Managing Director and General Management positions for some of Australia's leading consumer companies, including Creative Brands (owners of Australis and Le Tan) and Revlon.

She is also on the Board of the Cosmetic, Toiletry and Fragrance Association of Australia (CTFA), ACCORD, the Australian Formula 1 Grand Prix and is a member of their Audit and Risk Committee, and MTC (Melbourne Theatre Company). She brings a compelling track record and substantial experience in general management, sales and marketing in the cosmetics, fine fragrance and pharmaceutical industries, key markets for Indian Sandalwood oil.

Previously Ms Franklin has held Directorships in CEDA (Committee for Economic Development of Australia), Microsurgery Foundation and the Asthma Foundation. She was also the Chair for the Prime Minister's Gold Medal Access Committee under Prime Minister John Howard and on the Strategic Board for Premier Jeff Kennett for the Commonwealth Games Bid.

Interest in shares and performance rights:

Nil

Interests in TFS Projects:

Nil

Special responsibilities:

Remuneration Committee; Risk Management Committee

Directorships held in other listed entities in the last 3 years:

None

Michael Kay

Director (Non-Executive) (appointed 16 February 2015)

Qualifications:

LLB

Experience:

Mr Kay possesses significant commercial experience, most recently as Managing Director and Chief Executive Officer of McMillan Shakespeare Ltd, Australia's largest provider of salary packaging and novated leasing services. Before joining McMillan Shakespeare Ltd in May 2008, Mr Kay was the Chief Executive Officer of Australian Associated Motor Insurers Limited (AAMI). Mr Kay joined AAMI in 1993, and before rising to the position of Chief Executive Officer in 2006, he served as General Manager, Southern Region (comprising Victoria, Tasmania and South Australia) and Executive Chairman, Corporate Affairs and then, from 2002, as the Chief Operating Officer.

Before joining AAMI, Mr Kay practised for 10 years as a solicitor. Mr Kay is a Director of RAC Insurance and a former member of the Commonwealth Consumer Affairs Advisory Council, the Administrative Law Committee of the Law Council of Australia, the Victorian Government Finance Industry Council and the Committee for Melbourne. Mr Kay holds a Bachelor of Laws from the University of Sydney.

DIRECTORS' REPORT

Interest in shares and performance rights:	Nil
Interests in TFS Projects:	Nil
Special responsibilities:	Risk Management Committee (Chairman)
Directorships held in other listed entities in the last 3 years:	IMF Bentham Limited – Non-Executive Chairman (appointed 1 July 2015) McMillan Shakespeare Ltd (resigned 30 September 2014)

Other Directors who held office during the financial year were:-

Patrick O'Connor	Chairman (Non-Executive) – Resigned 15 December 2014
Qualifications:	Bachelor of Commerce, SEP Stanford (USA), FAICD
Experience:	Mr O'Connor has extensive leadership skills and wide experience in communicating with capital markets, shareholders and media, with knowledge and experience in corporate finance and governance.
Ronald Eacott	Director (Non-Executive) – Resigned 28 November 2014
Qualifications:	Diploma of Mechanical Engineering; Diploma of Export Management & Marketing
Experience:	Mr Eacott is highly experienced in company management with previous positions including State Manager of Union Steel (seven years) and National Manager (New Zealand) for Elders Pastoral (three years). Mr Eacott was the former State Manager (Western Australia) of Boral Steel and later Boral Cyclone over an 18 year period and plays an active role in the community. Mr Eacott is a Fellow of the Australian Institute of Export and is a past State President for the institute.
Stephen Atkinson	Director (Non-Executive) – Resigned 2 September 2014
Qualifications:	Bachelor of Laws; Bachelor of Jurisprudence
Experience:	Mr Atkinson was re-appointed to the Board on 12 July 2012 and was a founding Director and shareholder instrumental in the establishment of TFS in 1997. He was responsible for the provision of legal advice across all corporate and commercial matters relating to the establishment and day-to-day running of the company.

Company Secretary

The following persons held the position of Company Secretary at the end of the financial year:

Mr Quentin Heath Megson

Mr Megson joined the TFS Group in January 2005 as Chief Financial Officer. Prior to that he was a partner in the tax and business services division of chartered accounting firm - Pitcher Partners. He has been a Chartered Accountant for approximately 21 years.

Mr Simon Jonathan Storm

Mr Storm joined the TFS Group in January 2013 as Company Secretary. He is a Chartered Accountant with over 25 years of Australian and international experience in the accounting profession and commerce. He has held various senior finance and/or company secretarial roles with listed and unlisted entities in the banking, resources, construction, telecommunications, funds management and property development industries. In the last 13 years he has provided consulting services covering accounting, financial and company secretarial matters to various companies in these sectors.

DIRECTORS' REPORT

Meetings of Directors

During the financial year, the following meetings were held. Attendances by each Director during the year were as follows:

	Directors' Meeting		Meetings of committees					
	Number eligible to attend	Number attended	Audit		Remuneration		Risk Management	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend ⁽¹⁾	Number attended ¹
Dalton Gooding	11	11	1	1	-	-	-	-
Frank Wilson	16	16	-	-	-	-	-	-
Julius Matthys	16	16	2	2	3	3	-	-
John Groppoli	11	10	1	1	-	-	-	-
Gillian Franklin	7	5	-	-	-	-	-	-
Michael Kay	6	5	-	-	-	-	-	-
Patrick O'Connor	7	7	1	1	3	3	-	-
Ronald Eacott	8	6	1	1	3	2	-	-
Stephen Atkinson	4	4	2	2	-	-	-	-

⁽¹⁾ – Committee established in second half of the 2015 financial year with first meeting scheduled for the first quarter of the 2016 financial year.

Committee membership

As at the date of this report, the company had an Audit Committee, a Remuneration Committee, and a Risk Management committee.

Members active on the committees of the board during the year were:

Audit	Remuneration	Risk Management (refer Note 1 above)
John Groppoli (c)	Dalton Gooding (c)	Michael Kay (c)
Dalton Gooding	John Groppoli	John Groppoli
Julius Matthys	Gillian Franklin	Gillian Franklin

Notes

(c) Designates the chair of the committee

Principal Activities

The principal activities during the year of entities within the Group were:

- promotion of sandalwood plantation investment to institutional investors,
- manufacture and distribution of Indian and Australian sandalwood oil and related products,
- management and maintenance of Indian sandalwood plantations,
- promotion of sandalwood investment to high net worth investors ("HNW") and managed investment schemes ("MIS"),
- manufacture of pharmaceutical grade Indian sandalwood oil for end customers, including Nestle-owned Galderma,
- ownership, sale and leasing of land,
- ownership of Indian sandalwood plantations, and
- provision of finance to investors in sandalwood plantations.

There have been no significant changes in the nature of activities undertaken during the year.

Review of results and operations

The operations and results of the Group for the financial year are reviewed below. This review includes information on the financial position of the Group, and its business strategies and prospects for future financial years.

Operating Results

The consolidated comprehensive income of the Group for the financial year after providing for income tax increased 37% to \$113.650m (2014: \$82.802m).

DIRECTORS' REPORT

Operating Revenue

Total revenue and other income from ordinary activities increased by \$105.816m (50%) to \$318.037m (excluding the gain on revaluation of the External MIS growers' interest in biological assets –amounting to \$35.226m) due mainly from an increase in revenues from plantation sales and services (up by 20% to \$139.919m), higher revenue from sandalwood product sales (up 35% to \$27.662m) and a gain of \$136.632m on the revaluation of the Group's interest in biological assets.

The four main contributors to the Group's income are:

- sales of new plantations to institutional, HNW and External MIS retail investors,
- sales of sandalwood products;
- fees for the provision of plantation management services, and
- revaluations of the Group's directly owned biological assets.

Revenues from sales and services increased by 20% from \$116.494m to \$139.919m in 2015. Revenues from establishment fees generated from the sales of new plantations were broadly in line with 2014 driven mainly by the sale of 1,533 hectares of new plantations (2014: 1,477 hectares).

Consistent with prior years, income from establishment fees is recognised as revenue in the Statement of Profit or Loss based on the proportion of work performed at the reporting date. The sales finalised in the year to 30 June 2015, which will be recognised in 2015 and 2016, comprised:

Investor	2015 Hectares Sold	2014 Hectares Sold
Institutional	802	731
High Net Worth	651	659
Managed Investment Schemes	80	87
Total Hectares Sold	1,533ha	1,477ha
Total Establishment Fees	\$87.629m	\$89.812m

Demand for the Group's HNW product increased in the year with sales made to 37 investors (2014: 16 investors) at an average establishment fee of \$68,281 per hectare (2014: \$60,000 per hectare). For the first time, the Group signed plantations sales agreements with international HNW investors and this is expected to be a significant source of future revenue in 2016 and beyond.

The average establishment fee per hectare sold reduced in 2015 due to the exercise of options to establish new plantations granted in previous years to the Group's original institutional investors. The average establishment fee is expected to increase strongly in 2016 due to pricing increases on all plantation sales to new investors and reduced dilution from sales at historic option prices.

None of the plantation sales made by the Group in 2015 included options for the plantation investors to put their plantations to TFS in a subsequent year. As disclosed in the 2014 Annual Report, certain plantation sales made in 2014 included such put options. Since the value of these put options, if exercised, is expected to be significantly below the expected fair value of the plantations the probability of exercise is considered to be low (refer to Contingent Liabilities in Note 33).

Plantation products sold to HNW investors and institutional investors allow the investors to participate in returns through to oil sales (this compares to the MIS product which allows investors to participate through to sales of the harvested wood). The institutional and HNW contractual arrangements include performance fees which entitle the Group to participate in the returns of a completed investment once a hurdle rate of return has been achieved. The Group does not recognise any value for these performance fees.

The terms under which the Group manages plantations for an investor are included in an Investment Management Agreement ("IMA"). The IMA sets out the maintenance and management fees to be charged by the Group through to the completion of the investment. With the increasing size of the estate managed by the Group but owned by third party investors (up by 16% in 2015 to over 10,500 hectares at 30 June 2015), lease and management fees are a growing and recurring source of revenue. Lease and management fees increased by \$5.230m (29%) to \$23.188m in 2015.

DIRECTORS' REPORT

Certain growers may elect to defer the annual lease and management fees by granting TFS a share in the returns of their investment. TFS's financial interest in these plantation investments is recorded as an intangible asset (Accrued Income Receivable). The non-cash revenue from deferred fees increased by \$14.460m to \$26.913m in 2015, mainly due to increasing plantation sales and a higher proportion of investors electing to defer.

Revenue from the sale of sandalwood products rose 35% to \$27.662m (2014: \$20.450m). The sandalwood products division contributed earnings before interest, tax and depreciation of \$9.402m, up 124% on 2014's result of \$4.188m. This result was linked to increased sales of Indian sandalwood (up by 86% to \$4.538m in 2015), higher US dollar pricing of Australian sandalwood products and the benefits of an appreciating US dollar against the Australian dollar.

Total revenues and other income (excluding the gain on re-measurement of the External MIS growers' interest in biological assets) of \$318.037m (2014: \$212.221m) comprise cash revenues of \$151.167m (2014: \$135.147m) and non-cash revenues of \$166.870m (2014: \$77.074m). Non-cash revenues include the gain on the revaluation of the Group's biological assets, being the Indian sandalwood plantations directly owned by TFS, and the movement in the accrued income receivable from the deferral of annual fees by growers. The revaluation of the Group's biological assets provided a gain of \$136.632m (2014: \$63.301m) due to increased plantation ownership (the Group's direct ownership of plantations increased from 2,309 hectares to 2,353 hectares), a more favourable exchange rate, a fair value gain due to a shorter period to harvest and a higher assumed sales price of US\$2,800 per kg of oil (compared to US\$2,500 per kg in 2014). The key assumptions in the Group's valuation of its biological assets are outlined in Note 11 of the Financial Report and there have been no changes to the methodology used in 2015.

Operating Costs

Operating costs on core activities (excluding depreciation and amortisation, interest, finance costs, re-measurement of the External MIS growers' liabilities and unrealised foreign exchange movements) increased 16% to \$95.929m (2014: \$82.652m), mainly due to:

- direct plantation and other operating expenses increasing 11% to \$27.287m (2014: \$24.638m) with the increase in size of plantations under management increasing 16% to 10,583 hectares,
- salaries and wages increasing by 20% to \$24.744m (2014: \$20.546m) as a consequence of the increase in size of plantations under management. The average number of full time employees at 30 June 2015 was 168 and this was up 12% on 2014, and
- sales and marketing expenditure increasing by 11% to \$7.056m (2014: \$6.378m).

In August 2014, the Group successfully acquired the wood from the first MIS grower harvest (the East Kimberley Sandalwood project, planted by the Group in 1999) via public tender. This wood was processed into oil at the Mt Romance facility and sold in the current year. At the same time, the Group also acquired 25 hectares of plantations from the same scheme which is due to be harvested in 2016.

Interest and Financing Expenditure

Interest and finance costs for the year totalled \$22.450m (2014: \$20.064m). The increase mainly relates to the declining value of the Australian dollar compared to the US dollar during 2015. On 31 March 2015, the Group announced the issuance of a further US\$25.000m of senior secured notes under the provisions of the existing senior secured notes.

Share of Net Profits of Associates

Included in the share of net profits of investments accounted for under the equity method is a profit of \$5.158m (2014: \$5.879m) arising on an increase in valuation of the underlying sandalwood in the investments accounted for under the equity method plantation holding.

Statement of Cash Flows

Cash and cash equivalents decreased at 30 June 2015 by 18% to \$72.674m (2014: \$88.581m). A significant outflow in the year was the payment of \$31.444m in July 2014 to settle the 364 hectares of Indian sandalwood plantations acquired in June 2014.

Operating Cash Flows

Cash flow from operating activities increased by 239% to \$24.571m (2014: \$7.240m). The key reason for the improved performance was a focus on reducing the period between the execution and completion of sales to institutional plantation investors. As a result, two of the three institutional sales in 2015 were settled prior to 30 June 2015 (compared to nil in 2014).

DIRECTORS' REPORT

Investing Cash Flows

Cash outflow for investing activities increased by 114% to \$70.859m (2014: \$33.162m). During the year, the Group made a series of decisions to increase its ownership of Indian sandalwood plantations, consistent with the Group's strategic objectives. The total cost of these investment choices was \$44.485m (2014: \$12.966m).

Financing Cash Flows

Cash flow from financing activities decreased to \$30.381m (2014: \$57.986m). The primary source of financing cash-flows in 2015 was the US\$25.000m of notes, issued at a premium in March 2015 and under the provisions of the existing senior secured notes. In the prior year, the Group completed an equity issue which raised \$64.444m of cash.

Statement of Financial Position

Current Assets

Current assets increased by 12% to \$210.170m (2014: \$187.779m). Biological assets increased to \$17.564m and these plantations are classified as current assets as the trees are expected to be harvested and sold within 12 months. Trade receivables increased by 16% to \$93.272m (2014: \$80.526m) and inventories increased by 53% to \$23.660m (2014: \$15.433m) primarily due to an increase in land inventory held for resale.

Non-current Assets

Non-current assets increased by 32% to \$963.165m (2014: \$729.872m) mainly due to a 40% increase in the value of the Group's biological assets to \$607.010m (2014: \$434.240m).

The main drivers of the biological asset increase include an increase in plantation ownership (the Group's direct ownership of plantations increased from 2,309 hectares to 2,353 hectares), an increase in the revaluation of biological assets – External MIS growers, a more favourable exchange rate, a fair value gain due to a shorter period to harvest and a higher assumed sales price of US\$2,800 per kg of oil (compared to US\$2,500 per kg in 2014).

In addition, intangible assets increased 31% to \$114.379m (2014: \$87.607m) due mainly to an increase in accrued income receivable. Property, plant and equipment increased 22% to \$144.574m due mainly to the acquisition of irrigation and infrastructure assets, commensurate with the expanding operational activities.

Current Liabilities

Current liabilities decreased by 6% to \$95.890m (2014: \$102.304m) mainly due to a decrease in trade and other payables by 13% to \$55.089m (2014: \$63.449m), offset partially by an increase to unearned income of \$7.146m.

Non-current Liabilities

Non-current liabilities increased by 44% to \$502.922m (2014: \$349.020m). Financial liabilities (Secured senior notes) increased 44% to \$229.346m (2014: \$159.181m) primarily due to the issue of US\$25.000m of additional notes, the impact of the weaker Australian dollar on the US dollar denominated senior secured notes and an increase to the deferred tax liability of 57% to \$147.642m mainly arising as a consequence of the timing difference being booked on the unrealised gains on the biological assets.

Operations Review

Promotion of Plantation Sales and Retail Managed Investment Schemes

During the year the Group entered into contracts to establish and manage a further 802 hectares (2014: 731 hectares) of Indian sandalwood plantation for institutional wholesale investors. In addition the Group promoted its new project titled TFS Sandalwood Project 2015, as well as a product for HNW investors. A total of 731 hectares were subscribed for by MIS and HNW investors during the 2015 year (2014: 746 hectares).

Manufacture and Distribution of Australian Sandalwood Oil and Related Products

The Mount Romance Group manufactures and distributes Indian and Australian sandalwood oil and related products to the international market. In the year to 30 June 2015, the Mount Romance business contributed earnings before interest, tax, depreciation and amortisation of \$9.402m (2014: \$4.188m). This was in part due to higher Indian sandalwood oil sales following the completion of the Group's first annual harvest in 2014.

Management and Maintenance of Plantations

The Group completed a full inventory count and analysis of its estate during the year and has applied the results in this Financial Report. These included:

- the first count of plantations established in 2014 with results in line with expectations, with a tree survival rate of 91%, and
- overall good performance across the estate, with average mortality on all other plantations of less than 1%.

DIRECTORS' REPORT

Harvest of Plantations

The second harvest of Indian sandalwood from plantations established in Kununurra for the TFS Sandalwood Project No. 2 ("TFS 2") was completed in June 2015. The harvest of approximately 35 hectares was successfully completed with the harvest and processing of the wood into a marketable form taking approximately 7 weeks in total.

TFS 2 was the Group's second commercial plantation, established in 2000, across approximately 35 hectares, which yielded around two times the heartwood per hectare compared to the first plantation harvested in 2014.

The Group's next commercial plantation, TFS 2000 Sandalwood Project ("TFS 2000") which was established in 2001, is scheduled to be harvested in 2016. The plantation comprises 79 hectares, of which 29 hectares are owned by the Group. The heartwood yield from the TFS 2000 plantation is expected to be significantly better than TFS 2.

Ownership of Land and Plantations

TFS continues to expand its plantations under management and established 1,539 hectares of new Indian sandalwood plantations during the financial year.

TFS' geographic land and plantation composition (expressed in hectares) at 30 June 2015 is set out below.

	Established plantations		
	WA	QLD	NT
TFS interest	1,453	618	282
Beyond Carbon plantations ⁽ⁱ⁾	1,131	185	2,429
MIS/HNW plantations ⁽ⁱⁱ⁾	3,007	233	1,245
Total (Hectares)	5,591	1,036	3,956

(i) As at 30 June 2015, the Group was entitled under its contractual arrangement with Jarh Tree Co Pty Ltd to the gross harvest proceeds from an estimated 114 hectares (2014: 84 hectares) of plantations.

(ii) As at 30 June 2015, the Group was entitled under its deferred management fee arrangements to the gross harvest proceeds from an estimated 1,024 hectares (2014: 775 hectares) of plantations.

During 2015, the Group increased its direct ownership of plantations to 2,353 hectares (2014: 2,309 hectares).

This increase in Company-owned plantations illustrates how the Board is executing its strategy to build greater direct interest in the sandalwood plantation assets. This strategic direction is consistent with prior years and reflects the Board's confidence in the long term market fundamentals of Indian sandalwood ownership. The Board believes that to the extent the Group's cash flow will permit, having a greater direct holding in the sandalwood asset itself, rather than simply being a supplier of plantation services, will ultimately result in greater value to all shareholders.

It should be noted that the Board considers the Group's investor partnerships (institutional, HNW and retail sales) to be a key platform for the Group's operations. All growers are aligned to common objectives being to maximise the returns from the Indian sandalwood plantations. TFS expects to generate significant performance fees from the Beyond Carbon, high net worth and retail investors upon the harvest and sale of their plantations.

Provision of Finance

Arwon Finance Pty Ltd ("Arwon"), a 100% owned subsidiary, is a provider of finance, with the major focus being the provision of finance to investors in agricultural projects promoted and managed by the Group. Arwon also continues to manage a loan portfolio that is owned by a subsidiary of the Commonwealth Bank of Australia. In 2013 the MIS loan portfolio was identified as a non-core asset of the Group and a portion of the portfolio of MIS loans was divested to a large global credit fund for approximately \$22.450 million. TFS agreed to continue to manage the sale portfolio on behalf of the acquirer for an ongoing management fee. The monetisation of the portfolio illustrates the Group's ability to efficiently recycle capital and remains an ongoing option for the Company in managing its capital requirements.

Risk Management

The Group takes a pro-active approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

During the year the Board established a Risk Committee to assist the Board in carrying out its duties by providing an objective, non-executive oversight of the implementation and operation of the Company's risk management framework. The Committee is in the process of finalising its charter and will formally convene for the first time in the first quarter of 2016.

DIRECTORS' REPORT

Community

TFS has operations across regional Australia, and in many of these towns like Albany and Kununurra, is a major business in the community. TFS takes this responsibility seriously and works to develop economic and social benefits for local people. We do this through local procurement, job creation and sponsorship of charities and organisations. By focusing on sponsorships that promote long-lasting benefits like education, we work to strengthen the communities in which we work. Local community groups that benefit from our sponsorships include Clontarf Foundation, Albany Men's Health and Katherine Regional Arts.

Health and Safety

The health and safety of our employees is paramount to us and is critical to the success of our business. We have governance structures at Board and executive levels to guide and monitor health and safety performance and have continued to focus on identifying and controlling workplace health and safety hazards and risks. Whilst our operations have not been without incident, with a lost time injury frequency rating ("LTIFR") of 3.39 (2014: 7.66), management have implemented hazard reporting and inspection process to better fit legislative requirements across three jurisdictions. These will be fully deployed post further staff training with full support from the Board. Safety quality and environmental officers have been trained in maintaining required standards of knowledge and practice across the business to mitigate workplace risks.

A new Document Management System is to be introduced to enhance access to documents and record keeping across the organisation. A Processing Plant risk assessment has been completed and this lead to the procurement of safer plant in order to reduce risks associated with wood processing. Future phases of the TFS Safety Management Plan include the streamlining of the TFS contractor induction process for plantation work, with an emphasis on corporate duty of care between TFS and contractors.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs during the year. Refer to post balance date events commentary on acquisition of US based pharmaceutical partners.

Post Balance Date Events

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2015 of 3 cents per share. This equates to a total dividend of \$10.190m.

On 18 June 2015, TFS announced the acquisition of US-based pharmaceutical partners ViroXis Corporation and Santalis Pharmaceuticals. The acquisition will extend TFS's vertically integrated strategy from "soil to oil" to "soil to oil to shelf" as ViroXis and Santalis are well advanced in the formulation, testing and commercialisation of various dermatology products containing TFS pharmaceutical grade Indian sandalwood oil. These products include the Benzac® products which were launched by Nestle-owned Galderma earlier this year.

On 4 August 2015, the company announced the completion of the transactions to acquire ViroXis Corporation and Santalis Pharmaceuticals. The total maximum consideration payable by the Group consists of fixed minimum payments of US\$23.4 million and contingent payments over time of up to US\$221.500 million. The contingent consideration only becomes payable when the companies achieve significant operating and commercial milestones (from the launch or approval of new pharmaceutical products containing Indian sandalwood oil) and significant operating cash inflows.

Future Developments, Prospects and Business Strategies

The Directors foresee that for the 2016 financial year, the most significant areas of focus will be in:

- the establishment of a further circa 1,500 hectares of new Indian sandalwood plantations, with the majority located in the Northern Territory,
- the completion of the 2016 harvest which is expected to yield around ten times the heartwood of each of the Group's first (in 2014) and second (in 2015) harvest,
- the distillation of oil from both Indian and Australian sandalwood trees with a focus on the processing of pharmaceutical grade Indian sandalwood oil,
- the increased and broader distribution of sandalwood products to customers in US, Europe, China and Asia in markets for wood and oil, and
- the sale of new plantations to institutional, high net worth and retail customers in domestic and international markets.

DIRECTORS' REPORT

Environmental Management

The Group's operations are subject to significant environmental regulations under the laws of the Commonwealth and various States and Territory where the Group operates.

The Directors have considered the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduced a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act does not affect the company for the current or subsequent financial year. The Directors will reassess this position as and when the need arises.

Dividends

The following dividend was declared and paid during the 2015 financial year.

	Cents per share	Total amount \$'000	Date of payment
Final ordinary – fully franked	3 cents per share	9,725	10 November 2014

After the balance date the following dividend was proposed by the Directors. The dividend has not been provided for and there are no income tax consequences.

	Cents per share	Total amount \$'000
Final ordinary – fully franked	3 cents per share	10,190

The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2015 and will be recognised in subsequent Financial Reports.

Indemnification and Insurance of Directors and Officers

The Company has agreed to indemnify all the Directors and Executive officers for any breach of environmental or discrimination laws by the Company for which they may be held personally liable.

During or since the financial year, the Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company. The cover included professional indemnity as well as Directors and officers insurance.

The contract prohibits the disclosure of the nature of the liabilities or the amount of premium paid.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Options and Warrants

At the date of this report, the unissued ordinary shares of TFS Corporation Ltd under option or warrants are as follows.

Grant Date	Date of expiry	Exercise price	Number under option/warrants
1 August 2011	15 July 2018	\$1.28	54,390,000
21 February 2008	31 December 2017	\$1.80	1,000,000

Option holders do not have any rights to participate in any issues of shares or other interest in the company or any other entity.

During the year, 1,110,000 options were exercised into ordinary shares at \$1.28. There have been no other unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

DIRECTORS' REPORT

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The Directors are satisfied that the provisions of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means the auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	4,160
Corporate modelling	131,876
Assurance related	275,694
Remuneration structure advice	46,865
Other	74,031
	<u>532,626</u>

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Directors launched proceedings against a party with the Group indemnifying the Director's costs. The proceedings have been settled with costs being paid to the Group and an apology issued to the Directors.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2015 has been received and can be found on page 27 of the Annual Report.

ASIC Class Order 98/100 Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars.

DIRECTORS' REPORT

Remuneration Report - Audited

Introduction

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the Directors and for the Key Management Personnel ("KMP") of TFS Corporation Ltd (the "Company") and its controlled entities (the "Group") for the financial year ended 30 June 2015. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Company.

The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The table below outlines the KMP of the Group during the financial year ended 30 June 2015. Unless otherwise indicated, the individuals were KMP for the entire financial year.

(i) Non-executive Directors

D. Gooding	Non-Executive Chair (appointed 16 October 2014)
J. Matthys	Non-Executive Director
J. Groppoli	Non-Executive Director (appointed 10 October 2014)
G. Franklin	Non-Executive Director (appointed 1 December 2014)
M. Kay	Non-Executive Director (appointed 16 February 2015)
P. O'Connor	Non-Executive Chair (resigned 15 December 2014)
R. Eacott	Non-Executive Director (resigned 28 November 2014)
S. Atkinson	Non-Executive Director (resigned 2 September 2014)

(ii) Executive Directors

F. Wilson	Chief Executive Officer (CEO)
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(iii) Senior Executives

Q. Megson	GM Operations and Corporate Services
I. Thompson	Senior Adviser
A. Stevens	Chief Financial Officer (CFO)

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the CEO and the executive team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The Remuneration Committee meets regularly through the year. The CEO and CFO attend certain Remuneration Committee meetings by invitation, where management input is required. The CEO and CFO are not present during any discussions related to their own remuneration arrangement.

Executive Remuneration Arrangements

Remuneration Policy

The Group's policy for determining the nature and amount of emoluments of Board members and senior executives of the Group is as follows:

Non-Executive Director Remuneration

Applying best corporate governance practice, the structure of Non-Executive Director remuneration is distinct and separate from Executive remuneration. The Board periodically considers advice from external advisors and benchmarks the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$800,000 in aggregate and was approved by shareholders at the Annual General Meeting of 14 November 2014. The table below provides details of Board and Committee fees for the 2015 financial year and current Committee membership. The fee levels shown were current as at 30 June 2015.

DIRECTORS' REPORT

Remuneration Report - Audited

Directors' fees comprise cash and the statutory superannuation contribution. They have no entitlement to any performance based remuneration or participation in any share-based incentive schemes. They are not eligible for termination payments. Any further services provided by Non-Executive Directors that they may be requested by the Chairman and are outside the normal expected duties of a Director are remunerated at an agreed arm's length rate.

Main board	2015 \$
Non-Executive Chairman – D. Gooding	180,000
Members – all Non-Executive Directors	85,000
Audit Committee	
Chairman – J. Groppoli	12,000
Members – D. Gooding, J. Matthys	5,000
Remuneration Committee	
Chairman – D. Gooding	10,000
Members – G. Franklin, J. Groppoli	5,000
Risk Management Committee	
Chairman – M. Kay	10,000
Members – G. Franklin, J. Groppoli	5,000
Compliance Committee*	
Chairman – J. Matthys	10,000

* - Committee appointed by TFS Properties Ltd, Responsible Entity for the Sandalwood Managed Investment Schemes, pursuant to the Compliance Plans

Senior Manager and Executive Director Remuneration

The CEO and other Executives' remuneration packages are all subject to Board approval. The remuneration structure for the CEO and Executives is based on factors of qualifications, skill and experience of the individual concerned, market conditions and the overall performance of the company. The current Executive remuneration structure contains the following key elements:

- A fixed component to attract and retain quality management. This is structured as cash salary and superannuation.
- A performance linked annual Short Term Incentive ("STI") bonus for reaching or exceeding a range of key performance indicator measures. The bonus plan enables the senior executives to earn 0% to a maximum 30% of their Total Fixed Remuneration.
- Eligibility for participation in the TFS Long Term Incentive Plan ("LTIP"), as approved by shareholders.

The contracts for service between the Company and specified Directors and Executives are on a periodic basis. There are no conditions in the contracts that provide for any specific amounts payable on termination.

The Remuneration Committee regularly reviews the level of Executive remuneration and, in particular, the level of any performance bonuses. Last year the Committee undertook the following activities in order to ensure an appropriate remuneration structure was determined that would adequately incentivise key Executives of the Company, while ensuring the interests of the shareholders were maintained:-

- Introduction of an executive long term incentive scheme to contribute to key employee retention; and
- Update the CEO and Executives' key performance indicators on an annual basis to reflect strategic and business milestones and ensure robust measurement for Short Term Incentives.

DIRECTORS' REPORT

Remuneration Report - Audited Performance Based Remuneration Short Term Incentives

The Group seeks to emphasise payment for results through its STI Scheme. The objective of the reward scheme is to both reinforce the short and long term goals of the company and to provide a common interest between management and shareholders. The Key Performance Indicators ("KPIs") for the STIs of the CEO, KMP and other managers in the Group are composed of a tailored combination covering financial performance, product sales, cost control, forestry performance and interpersonal skills depending upon job role and span of control. These KPIs have been selected as they contribute directly to the performance and annual profitability of the Group.

The Board's underlying criteria for the payment of STI will be an assessment of annual profitability. The Board retains discretion to withhold or increase individual incentives (within the maximum cap).

The CEO and Executives can achieve between 0% and a maximum of 30% of Total Fixed Remuneration based on annual performance.

At the end of 30 June 2015, the Board reviewed the Group's financial results and the results of other performance measures. The Board has assessed the performance of the Group against the Budget and plan for 2015 and determined the percentage of STI that was payable. As part of this assessment, the Board has selectively applied its absolute discretion to determine the outcome under the STI plan. The Board has applied its discretion to both increase and decrease STI awards based on significant individual over or under performance.

STIs will be paid in connection with activities undertaken in the 30 June 2015 financial year and total \$1.099m (2014: \$0.539m) of which \$0.458m relates to KMPs. These STIs will be paid in the second quarter of the 2016 financial year.

Long Term Incentives

Long-term incentives in the form of equities are provided to certain employees at the discretion of the Board. Equities are provided via the Group's Long Term Incentive Plan, which was approved by shareholders at the 2014 Annual General Meeting.

The LTIP is intended to be the Group's principal vehicle for granting long term incentive awards, comprising performance rights which vest based on ongoing employment and the achievement of specifically selected performance hurdles over the relevant performance period.

The primary objectives of the LTIP are to:

- assist in the attraction, retention and motivation of key individuals;
- link the reward of KMP and other eligible executives to performance and the creation of shareholder value;
- encourage increased alignment between reward outcomes and shareholder interests by providing an opportunity to receive an equity interest and build their shareholding in the Company, and the ability to share in future growth in Company value;
- drive long term shareholder value creation; and
- ensure enhanced focus on the Company's long term performance and strategic direction.

A performance right is determined by and awarded at the discretion of the Board. It provides in effect, a contractual right to be issued with a fully paid ordinary share in the Company (or an equivalent cash amount determined by and at the discretion of the Board) on the satisfaction of certain conditions. The performance rights issued will not vest (and the underlying shares will not be issued) unless certain performance conditions have been satisfied.

The Board determines the vesting conditions, which may include performance and/or service conditions that must be satisfied before the performance rights vest.

The vesting conditions will be measured and tested over a vesting period determined by the Board.

For the first grant under this Plan, grants were made in two equal tranches, one with a performance period of three years (2017 Performance Rights: 1 July 2014 – 30 June 2017) and the other with a performance period of four years (2018 Performance Rights: 1 July 2014 – 30 June 2018).

DIRECTORS' REPORT

Remuneration Report – Audited

Should employment with the Group cease before the Board determines whether the performance rights have vested, the treatment of unvested rights will depend on the circumstances of cessation. Resignation, termination for cause or gross misconduct, would result in unvested performance rights lapsing at cessation. If employment ceases for any other reason before performance rights vest, a pro-rata portion of unvested rights will continue “on-foot” and will be tested at the end of the original performance period, vesting only to the extent that the relevant performance conditions have been satisfied (ignoring any service related conditions). Where employment ceases (regardless of the reason for cessation) within 12 months of the start of the performance period, all unvested rights granted in respect of that performance period would lapse at cessation.

The LTIP rules provide the Board with discretion to determine that a different treatment should apply at the time of cessation, if applicable.

The Board has determined the performance conditions for the initial grant to be as follows:

- (1) Absolute Total Shareholder Return (“TSR”) – 50% of performance rights will be subject to the Company’s absolute TSR growth performance. TSR calculates the return shareholders would earn if they held a notional number of shares over a period of time, and measures the growth in the TFS share price together with the value of dividends during the period, assuming that all those dividends were re-invested into new shares.
- (2) Absolute Earnings per Share (“EPS”) – 50% of performance rights will be subject to the Company’s absolute cash EPS growth performance.

The performance conditions are independent and will be tested separately at the end of the relevant vesting periods.

The performance conditions have been selected as they represent measures of long term shareholder value and long term performance and strategic direction.

The applicable basic cash EPS and TSR performance targets and relevant vesting schedules are the same for all participants in the LTIP.

The percentage of performance rights subject to the TSR hurdle and EPS hurdle that vests, if any, will be determined by the Board with reference to annual TSR growth and EPS achieved over the performance period, compared to the Company’s targets, as follows:

Compound annual growth in TSR performance and basic cash EPS over the Performance Period		Rights subject to TSR and basic cash EPS hurdles that vest (%)
Maximum % or above	Greater than 12.5% p.a.	100%
Between target % and maximum %	7.5% to 12.5% p.a.	Progressive pro rata vesting between 50% to 100% (i.e. on a straight line basis)
Less than the target %	Less than 7.5%	0%

Company Performance, Shareholder Wealth and Director and Executive Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and Executives. The Group believes this policy has been effective in increasing shareholder wealth and in particular ensuring that the Group is able to adapt to changes in its industry and take advantage of opportunities to improve its business model.

DIRECTORS' REPORT

Remuneration Report – Audited

The table below shows key financial measures of Group performance over the past five years.

	2015	2014	2013	2012	2011
Total revenue (\$'000)	318,037	212,221	187,688	126,838	111,037
Net profit before tax (\$'000)	157,262	114,659	79,842	36,006	25,461
Net comprehensive income after tax (\$'000)	113,650	82,802	55,729	25,878	20,166
Share price at start of the year (\$)	1.65	0.51	0.50	0.89	0.84
Share price at end of the year (\$)	1.61	1.65	0.51	0.50	0.89
Interim fully franked dividend (cents)	-	-	-	-	1.25
Final fully franked dividend (cents)*	3.00	3.00	3.00	-	3.50
Cash earnings per share (cents)	6.39	6.54	7.62	2.36	3.41
Basic earnings per share (cents)	34.66	28.93	19.93	9.29	8.36
Diluted earnings per share (cents)	33.30	28.93	19.93	9.29	8.33

* Declared after the end of the reporting period and not reflected in the financial statements.

Employment details of Members of Key Management Personnel and Other Executives

The following table outlines the proportion of maximum STI earned and forfeited in relation to the 2015 financial year.

Name	Proportion of maximum STI earned in FY15	Proportion of maximum STI forfeited in FY15
F. Wilson	100%	0%
A. Stevens	100%	0%
I. Thompson	100% ⁽ⁱ⁾	0%
Q. Megson	0% ⁽ⁱ⁾	100%

(i) The maximum entitlement is 30% of Total Fixed Remuneration based on annual performance

The employment terms and conditions of KMP and Executives are formalised in contracts of employment. A contracted person deemed employed on a permanent basis may terminate their employment by providing notice in accordance with their contracted terms. Current notice period for Mr Wilson is 20 weeks and 12 weeks for Mr Stevens, Mr Megson and Mr Thompson. No amounts for termination have been agreed or contracted.

No fixed term employment contracts exist.

Option and Rights Holdings of KMP

	Balance at beginning of period (01.07.14)	Granted as remuneration	Options exercised	Net change other	Balance at the end of period (30.06.15)	Total	Vested at 30 June 2015	
							Exercisable	Not exercisable
30.06.15								
Director								
Mr FC Wilson	-	512,667	-	-	512,667	512,667	-	-
Other KMP								
Mr A Stevens	-	188,384	-	-	188,384	188,384	-	-
Mr Q Megson	318,000	101,618	-	-	419,618	419,618	318,000	-
Mr I Thompson	339,700	125,783	(339,700)	-	125,783	125,783	-	-

DIRECTORS' REPORT

Remuneration Report – Audited

Directors and Key Management Personnel Remuneration for the Years Ended 30 June 2015 and 30 June 2014

Details of Remuneration for the Year Ended 30 June 2015

Directors	Short Term Benefits			Post-Employment	Equity	Other Long Term Benefits	Total	Performance related
	Cash, Salary & Fees	Short term incentives	Other cash benefit	Super-annuation	Share based payment	Long service leave		
	\$	\$	\$	\$	\$	\$		%
Mr D Gooding	113,453	-	-	10,773	-	-	124,226	-
Mr F Wilson (iv)	712,638	225,000	-	67,701	85,217	29,463	1,120,019	20.6%
Mr J Matthys	70,067	-	-	6,656	-	-	76,723	-
Mr J Groppoli	56,365	-	-	5,355	-	-	61,720	-
Ms G Franklin	45,662	-	-	4,338	-	-	50,000	-
Mr M Kay	33,482	-	-	-	-	-	33,482	-
Mr P O'Connor (iii)	70,767	-	-	6,722	-	-	77,489	-
Mr R Eacott (ii)	22,883	-	-	2,174	-	-	25,057	-
Mr S Atkinson (i)	13,729	-	-	1,304	-	-	15,033	-
	1,139,046	225,000	-	105,023	85,217	29,463	1,583,749	
Other Key Management Personnel								
Mr A Stevens (iv)	479,919	144,983	-	44,592	31,207	-	700,701	20.7%
Mr Q Megson	234,061	-	-	22,235	16,899	65,752	338,947	-
Mr I Thompson (iv)	289,721	87,524	-	27,524	20,919	22,208	447,896	20.6%
	1,003,701	232,507	-	94,351	69,025	88,960	1,487,544	
Total	2,142,747	457,507	-	199,374	154,242	117,423	3,071,293	

DIRECTORS' REPORT

Remuneration Report - Audited

Notes

- (i) Mr Atkinson resigned as a Director on 2 September 2014
- (ii) Mr Eacott resigned as a Director on 28 November 2014
- (iii) Mr O'Connor resigned as a Director on 15 December 2014
- (iv) The STI awards with respect to 2015 will be paid in 2016

Details of Remuneration for the Year Ended 30 June 2014

Directors	Short Term Benefits			Post-Employment	Equity	Other Long Term Benefits	Total	Performance related
	Cash, Salary & Fees	Short term incentives	Other cash benefit	Super-annuation	Share based payment	Long service leave (ii)		
	\$	\$	\$	\$	\$	\$		%
Mr P O'Connor	131,350	-	-	12,150	-	-	143,500	-
Mr F Wilson	715,928	225,000	38,000	36,979	-	11,766	1,027,673	22.1
Mr R Eacott	54,920	-	-	5,080	-	-	60,000	-
Mr A Gilchrist	46,948	-	-	4,343	-	-	51,291	-
Mr J Matthys	54,920	-	-	5,080	-	-	60,000	-
Mr S Atkinson	54,920	-	-	5,080	-	-	60,000	-
	1,058,986	225,000	38,000	68,712	-	11,766	1,402,464	
Other Key Management Personnel								
Mr A Stevens	192,492	58,650	-	17,806	-	-	268,948	21.8
Mr P Correa ⁽ⁱ⁾	376,989	-	-	24,872	34,233	-	436,094	-
	569,481	58,650	-	42,678	34,233	-	705,042	
Total	1,628,467	283,650	38,000	111,390	34,233	11,766	2,107,506	

(i) Ceased being a KMP on 30 June 2014

(ii) Comparatives have been restated to recognise the long service leave accrual as a long term benefit.

DIRECTORS' REPORT

Remuneration Report - Audited

Share Based Payments Granted as Compensation for the Current Financial Year

The Group operated two types of ownership-based schemes for Executives and employees. The new TFS LTIP, which grants performance rights, was approved by shareholders in 2014. This has replaced the previous LTIP (Share Acquisition Plan), whereby shares were issued to employees financed by way of non-recourse loans. Further details of the total number of shares issued pursuant to share acquisition plan and the new LTIP are included in Note 35.

No Non-Executive Directors own shares through either LTIP scheme.

Performance Rights Issued in Financial Year 2015

The terms and conditions of performance rights granted to KMP during the year ended 30 June 2015 affecting remuneration in the current or future reporting periods are set out in the following table:

Executive Director	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Fair Value in Share Based Payments ³	Number vested during the year
Mr F Wilson	2017 Perf Right (Tche 1)	27-Jan-15	30-Jun-17 ¹	27-Jan-22	\$0.63	125,000	\$13,777	-
	2017 Perf Right (Tche 1)		30-Jun-17 ²	27-Jan-22	\$1.44	125,000	\$30,000	-
	2018 Perf Right (Tche 2)		30-Jun-18 ¹	27-Jan-22	\$0.65	131,334	\$10,577	-
	2018 Perf Right (Tche 2)		30-Jun-18 ²	27-Jan-22	\$1.41	131,333	\$30,863	-
Other KMP	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Fair Value in Share Based Payments ³	Number vested during the year
Mr A Stevens	2017 Perf Right (Tche 1)	27-Jan-15	30-Jun-17 ¹	27-Jan-22	\$0.63	42,814	\$4,719	-
	2017 Perf Right (Tche 1)		30-Jun-17 ²	27-Jan-22	\$1.44	42,815	\$10,276	-
	2018 Perf Right (Tche 2)		30-Jun-18 ¹	27-Jan-22	\$0.65	51,377	\$4,138	-
	2018 Perf Right (Tche 2)		30-Jun-18 ²	27-Jan-22	\$1.41	51,378	\$12,074	-
Mr Q Megson	2017 Perf Right (Tche 1)	27-Jan-15	30-Jun-17 ¹	27-Jan-22	\$0.63	25,000	\$2,755	-
	2017 Perf Right (Tche 1)		30-Jun-17 ²	27-Jan-22	\$1.44	25,000	\$6,000	-
	2018 Perf Right (Tche 2)		30-Jun-18 ¹	27-Jan-22	\$0.65	25,809	\$2,079	-
	2018 Perf Right (Tche 2)		30-Jun-18 ²	27-Jan-22	\$1.41	25,809	\$6,065	-
Mr I Thompson	2017 Perf Right (Tche 1)	27-Jan-15	30-Jun-17 ¹	27-Jan-22	\$0.63	30,945	\$3,411	-
	2017 Perf Right (Tche 1)		30-Jun-17 ²	27-Jan-22	\$1.44	30,945	\$7,427	-
	2018 Perf Right (Tche 2)		30-Jun-18 ¹	27-Jan-22	\$0.65	31,946	\$2,573	-
	2018 Perf Right (Tche 2)		30-Jun-18 ²	27-Jan-22	\$1.41	31,947	\$7,508	-

DIRECTORS' REPORT

Remuneration Report - Audited

(1) TSR Performance hurdle - Absolute TSR –performance rights subject to the Company's absolute TSR growth performance over the period 1 July 2014 to 30 June 2017 (Tranche 1) and 1 July 2014 to 30 June 2018 (Tranche 2).

(2) EPS Performance hurdle - Absolute cash EPS –performance rights will be subject to the Company's absolute cash EPS growth performance over the period 1 July 2014 to 30 June 2018.

(3) The fair value of the performance rights granted during the year are recognised in compensation over the vesting period of the rights, in accordance with Australian Accounting Standards.

The percentage of performance rights subject to the TSR hurdle and EPS hurdle that vest, if any, will be determined by the Board with reference to annual TSR growth and EPS achieved over the performance period as set out under 5.4(ii) above.

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.08%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

Performance Rights Issued in Financial Year 2014

No performance rights were granted in 2014.

Options Issued Through the Share Acquisition Plan in the 2015 Financial Year

No shares were issued under the LTIP share acquisition plan in 2015.

The following table summarises the options that were exercised during the year:

	Value of options exercised during the year	Value of options exercised at the exercise date	Amount paid on exercise	Value of options lapsed at the grant date
Name	\$	\$	\$	\$
Mr P Correa (resigned Aug 2014)	39,788	390,957	97,136 ⁽ⁱ⁾	-
Mr I Thompson	200,423	699,017	387,258 ⁽ⁱ⁾	-

(i) No options are outstanding at 30 June 2015. No amount remains unpaid on the exercise of these options.

Options Issued Through the Share Acquisition Plan in the 2014 financial year

During the 2014 financial year the following share-based payment arrangements were in existence for KMP:

Share plan series	Exercise price (cents)	Grant date	Expiry date	Grant date fair value (cents)	Number on issue	Vesting date
Share issue no. 6	0.52	10 May 2013	No fixed date	0.21	186,800	Fully vested
Share issue no. 3	1.15	6 June 2008	No fixed date	0.59	339,700	Fully vested

The following table summarises the value of options granted to KMP, under the share acquisition plan:

	Value of shares granted at the grant date	Value of shares exercised at the exercise date	Value of shares lapsed at the date of lapse
Name	\$	\$	\$
Mr P Correa (share issue no.6)	39,788	-	-

During the 2014 financial year, no KMP exercised their substance options granted under the TFS Long Term Incentive Plan and therefore full rights attaching to share ownership remain restricted.

The Group has a policy with respect to buying and selling TFS Corporation Ltd securities and this is available on the website at <http://www.tfsltd.com.au/investors/shareholders/governance/>

DIRECTORS' REPORT

Remuneration Report - Audited

Key Management Personnel Equity Holdings

Interest of Key Management Personnel (KMP Shareholding)

30 June 2015	Balance at the beginning of year	Received as compensation	Options exercised	Net change other	Balance at end of year
Directors	No	No	No	No	No
Mr D Gooding	-	-	-	100,000	100,000
Mr F Wilson	46,801,493	-	-	750,000	47,551,493
Mr J Matthys	3,342,500	-	-	-	3,342,500
Mr J Groppoli	-	-	-	-	-
Ms G Franklin	-	-	-	-	-
Mr M Kay	-	-	-	-	-
Mr P O'Connor ⁽ⁱ⁾	-	-	-	-	-
Mr R Eacott ⁽ⁱ⁾	4,841,201	-	-	(4,841,201)	-
Mr S Atkinson ⁽ⁱ⁾	1,566,668	-	-	(1,566,668)	-
Other KMP					
Mr A Stevens	-	-	-	-	-
Mr Q Megson	24,794	-	-	(24,794)	-
Mr I Thompson	201,815	-	339,700	(539,700)	1,815
	56,778,471	-	339,700	(6,122,363)	50,995,808

(i) Resigned as a Director during the year. Net change other reflects shareholding at time of resignation.

30 June 2014	Balance at the beginning of year	Received as compensation	Options exercised	Net change other	Balance at end of year
Directors	No	No	No	No	No
Mr P O'Connor	-	-	-	-	-
Mr F Wilson	45,801,493	-	-	1,000,000	46,801,493
Mr R Eacott	4,841,201	-	-	-	4,841,201
Mr A Gilchrist ⁽ⁱ⁾	2,125,083	-	-	(2,125,083)	-
Mr J Matthys	3,342,500	-	-	-	3,342,500
Mr S Atkinson	3,866,668	-	-	(2,300,000)	1,566,668
Other KMP					
Mr A Stevens	-	-	-	-	-
Mr P Correa ⁽ⁱⁱ⁾	202,500	-	-	(202,500)	-
	60,179,445	-	-	(3,627,583)	56,551,862

(i) Resigned as a Director during the 2014 financial year. Net change other reflects shareholding at time of resignation.

(ii) Resigned as a KMP on 30 June 2014.

All equity transactions with KMP other than those arising from the exercise of remuneration options or performance rights, have been entered into under terms and conditions no more favourable than those the Group would have adopted in arm's length transactions.

DIRECTORS' REPORT

Remuneration Report - Audited Loans to Key Management Personnel

The Group has provided several of its KMP with short-term loans at rates comparable to the average commercial rate offered to third party acquirers of the Group's plantations. The loans were wholly applied to fund the acquisition of interest in the Group's HNW investment product on the same terms as the other HNW investors.

The loans to KMP are secured over their trees and are full recourse.

2015	Balance 01.07.14	Amount advanced	Principle repayments	Sale of loan	Balance 30.06.15	Interest charged	No. in group
	\$	\$	\$	\$	\$	\$	
Directors – Loans	13,397,586	-	(1,336,086)	-	12,061,500	302,364	2
Directors – 12 month payment term	24,736	6,738	(30,457)	-	1,017	-	2
Other key management – loans	-	-	-	-	-	-	-
Other key management – 12 month payment term ⁽¹⁾	546,984	84,627	(4,975)	-	626,636	51,489	2
Total	13,969,306	91,365	(1,371,518)	-	12,689,153	353,853	

⁽¹⁾ Relates to employees who became KMP on 1 July 2014.

2014	Balance 01.07.13	Amount advanced	Principle repayments	Sale of loan	Balance 30.06.14	Interest charged	No. in group
	\$	\$	\$	\$	\$	\$	
Directors – Loans	10,684,304	13,270,532	(10,557,250)	-	13,397,586	6,632	2
Directors – 12 month payment term	14,927	39,535	(29,726)	-	24,736	-	4
Other key management – loans	-	40,095	-	-	40,095 ⁽¹⁾	-	1
Other key management – 12 month payment term	-	-	-	-	-	-	-
Total	10,669,231	13,350,162	(10,586,976)	-	13,462,417	6,632	

⁽¹⁾ Relates to an employee who ceased to be a KMP on 30 June 2014.

Key Management Personnel With Loans Above \$100,000 in the Reporting Period

The Group provided several of its KMP with short-term loans at rates comparable to the average commercial rate of interest.

Amounts in relation to loans above \$100,000 made to key management personnel.

2015		Balance 01.07.14	Amount advanced	Principle repayments	Sale of loan	Balance 30.06.15	Interest charged
		\$	\$	\$	\$	\$	\$
F Wilson	Loans ⁽ⁱ⁾	13,267,650	-	(1,206,150)	-	12,061,500	302,364
	Terms ⁽ⁱⁱ⁾	-	-	-	-	-	-
R Eacott	Loans ⁽ⁱ⁾	129,936	-	(129,936)	-	-	-
	Terms ⁽ⁱⁱ⁾	22,743	12,174	(34,489)	-	428	-
I Thompson	Loans ⁽ⁱ⁾	493,523	46,557	-	-	540,080	46,557
	Terms ⁽ⁱⁱ⁾	-	-	-	-	-	-

⁽ⁱ⁾ Loans used solely for the purpose of investing in TFS plantations (on terms no more favourable than other plantation investors). Refer to Note 37b.

⁽ⁱⁱ⁾ Terms used solely for the purpose of Lease and Management fees in TFS plantations.

DIRECTORS' REPORT

Remuneration Report - Audited

2014		Balance 01.07.13	Amount advanced	Principle repayments	Sale of loan	Balance 30.06.14	Interest charged
		\$	\$	\$	\$	\$	\$
F Wilson	Loans ⁽ⁱ⁾	10,557,250	13,267,650	(10,557,250)	-	13,267,650	-
	Terms ⁽ⁱⁱ⁾	11,249	-	(11,249)	-	-	-
R Eacott	Loans ⁽ⁱ⁾	127,054	2,882	-	-	129,936	6,632
	Terms ⁽ⁱⁱ⁾	404	33,796	(11,457)	-	22,743	-

(i) Loans used solely for the purpose of investing in TFS plantations (on terms no more favourable than other plantation investors). Refer to Note 37b.

(ii) Terms used solely for the purpose of Lease and Management fees in TFS plantations.

Other Transactions with Director Related Entities:

Transactions with, and amounts receivable from and payable to, specified Directors or their personally related entities occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the Director or related entity at arm's length in the same circumstances.

- (i) Frank Wilson was a principal of Wilson & Atkinson and continues to be a part owner in the business. This company provided legal services on commercial terms to the Group. During the year to 30 June 2015 an amount of \$346,947 (2014: \$359,605) was charged to the Group. Frank Wilson neither directly nor indirectly received any financial benefit from these payments.
- (ii) Other transactions with Directors as plantation investors (on terms no more favourable than other plantation investors).
 - Total investments by Frank Wilson during the year ended 30 June 2015 were nil (2014: investment in \$14,190,000 GST inclusive) and as a result of this he was entitled to no rebate (2014: \$922,350 GST inclusive) to be offset against the amount due to the Group.
 - Total new plantation investments by Dalton Gooding during the year ended 30 June 2015 were \$275,000 GST inclusive. No rebates were applied against this investment. No loans were entered into as the investment was settled in cash by 30 June 2015.
 - Project lease and management fees paid by Directors during the year were \$6,738 (GST inclusive) (2014: \$39,535).

Services From Remuneration Consultants

The Remuneration Committee engaged Ernst & Young as the remuneration consultant to the Board to review the amount and elements of the Directors' remuneration and to provide recommendations in regard to the introduction of a LTIP. Ernst & Young was paid \$46,865 for remuneration structure advice.

In addition the Remuneration Committee engaged an independent as a remuneration consultant as an adviser to the Board to review the amount and elements of senior management's remuneration. The consultant was paid \$4,716 for this remuneration advice.

The Remuneration Committee is satisfied that all contact with the Company were at arms-length from the CEO and other KMP and the consultants had direct access to the Remuneration Committee.

END OF REMUNERATION REPORT

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



Dalton Gooding

Chairman of the Board

Dated in Perth this 30th of August 2015

DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;
- (c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and the Corporations Regulations 2001 and giving a true and fair view of the financial position and performance of the company; and
- (d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 31 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors



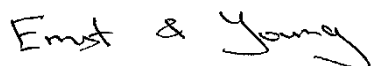
Dalton Gooding

Chairman of the Board

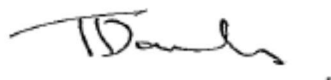
Dated in Perth this 30th day of August 2015

Auditor's Independence Declaration to the Directors of TFS Corporation Ltd

In relation to our audit of the financial report of TFS Corporation Ltd for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



T G Dachs
Partner
30 August 2015

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015**

	NOTE	2015 \$'000	2014 (Restated) \$'000
Revenue	2	178,107	147,587
Other income	2	139,930	64,634
Direct plantation and other operating expenses		(27,287)	(24,638)
Raw materials and consumables used		(14,356)	(12,911)
Cost of land sold		(6,205)	(5,311)
Salaries and employees benefits expense		(24,744)	(20,546)
Sales and marketing expenses		(7,056)	(6,378)
Corporate and other administration expenses		(16,281)	(12,868)
Depreciation and amortisation expenses		(8,575)	(6,635)
Finance costs		(22,450)	(20,064)
Unrealised foreign exchange gain / (loss)		(38,979)	5,910
Share of net profits of investments accounted for under the equity method	13	5,158	5,879
Revaluation of biological assets – External MIS growers		34,226	(1,230)
Re-measurement of External MIS grower liabilities		(34,226)	1,230
Profit before income tax expense		157,262	114,659
Income tax expense	4	(44,241)	(32,169)
Profit for the period		113,021	82,490
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		295	(24)
<i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods:</i>			
Net gain on uplift in land of an associated entity (net of tax)		75	336
Revaluation of land and buildings net of tax (net of tax)		259	-
Total comprehensive income for the period		113,650	82,802
Earnings per share			
Basic earnings per share (cents per share)	27	34.66	28.93
Diluted earnings per share (cents per share)	27	33.30	28.93

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	NOTE	2015 \$'000	2014 (Restated) \$'000
CURRENT ASSETS			
Cash and cash equivalents	24(i)	72,674	88,581
Trade and other receivables	5	93,272	80,526
Inventories	6	23,660	15,433
Biological assets	11	17,564	-
Other financial assets	7	3,000	3,239
TOTAL CURRENT ASSETS		210,170	187,779
NON CURRENT ASSETS			
Trade and other receivables	8	43,540	47,100
Other financial assets	9	6,949	7,104
Property, plant and equipment	10	144,574	118,680
Deferred tax assets	4	24,869	15,422
Biological assets	11	607,010	434,240
Intangible assets and goodwill	12	114,379	87,607
Investments accounted for using equity method	13	13,333	7,934
Other assets	14	8,511	11,785
TOTAL NON CURRENT ASSETS		963,165	729,872
TOTAL ASSETS		1,173,335	917,651
CURRENT LIABILITIES			
Trade and other payables	15	55,089	63,449
Financial liabilities	17	9	16
Income tax payable	4d	7,772	13,401
Provisions	16	2,659	2,223
Unearned income	18	30,361	23,215
TOTAL CURRENT LIABILITIES		95,890	102,304
NON CURRENT LIABILITIES			
Provisions	19	1,816	6,186
Financial liabilities	20	349,384	245,316
Deferred tax liabilities	4	147,642	94,162
Unearned income	21	4,080	3,356
TOTAL NON CURRENT LIABILITIES		502,922	349,020
TOTAL LIABILITIES		598,812	451,324
NET ASSETS		574,523	466,327
EQUITY			
Issued capital	22	188,948	184,964
Asset revaluation reserve	23	8,776	8,442
Foreign currency translation reserve	23	271	(24)
Option/Warrant reserve	23	9,403	9,083
Retained earnings		367,125	263,862
TOTAL EQUITY		574,523	466,327

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015**

	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 July 2014	184,964	17,501	263,862	466,327
Profit for the period	-	-	113,021	113,021
Other comprehensive income	-	629	-	629
Total comprehensive income for the period	-	629	113,021	113,650
Transaction with owners, in their capacity as owners, and other transfers				
Shares issued during the period	1,420	-	-	1,420
Shares issued under the Dividend Reinvestment Plan	2,564	-	-	2,564
Share based payments	-	320	-	320
Dividends recognised for the period	-	-	(9,758)	(9,758)
Balance at 30 June 2015	188,948	18,450	367,125	574,523
Balance at 1 July 2013	117,760	17,111	189,761	324,632
Profit for the period	-	-	82,490	82,490
Other comprehensive income	-	312	-	312
Total comprehensive income for the period	-	312	82,490	82,802
Transaction with owners, in their capacity as owners, and other transfers				
Shares issued during the period	69,133	-	-	69,133
Cost of shares issued during the period	(1,929)	-	-	(1,929)
Share based payments	-	78	-	78
Dividends recognised for the period	-	-	(8,389)	(8,389)
Balance at 30 June 2014	184,964	17,501	263,862	466,327

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$'000	2014 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt from operations		140,426	104,854
Payments to suppliers and employees		(103,244)	(86,577)
Payments for land held for resale		(8,804)	(8,754)
Repayment of grower loans		18,277	11,465
Interest received		3,481	3,282
Finance charges		(19,617)	(19,141)
Income tax refund / (paid)		(5,948)	2,111
Net cash generated by operating activities	24	24,571	7,240
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment		1,304	107
Payments for plant and equipment		(19,573)	(18,391)
Payments for investment in own plantation		(44,485)	(12,966)
Payments for land development		(1,345)	-
Receipts from investments		1,275	2,558
Payments for investments		(941)	(1,279)
Receipts from MIS custodian accounts		3,239	2,340
Payments to MIS custodian accounts		(3,520)	(3,786)
Payments for land and buildings		(6,813)	(1,602)
Acquisition of subsidiary (net of cash acquired)		-	(143)
Net cash used in investing activities		(70,859)	(33,162)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(16)	(14)
Proceeds from borrowings		35,111	-
Proceeds from issue of shares		2,472	64,444
Dividends paid		(7,186)	(6,444)
Net cash generated by financing activities		30,381	57,986
Net (decrease)/increase in cash held		(15,907)	32,064
Cash at the beginning of the period		88,581	56,517
Cash at the end of the period		72,674	88,581

The accompanying notes form part of these financial statements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers TFS Corporation Ltd (“TFS”) and its controlled entities (“the Group”). TFS is a for-profit listed public company, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The group is principally engaged in the promotion of sandalwood investments and the management of sandalwood plantations. Information on the Group’s structure is provided in Note 29 and information on other related party relationships is provided in Note 37.

The financial report was authorised for issue on the 30th of August 2015 by the Board of Directors.

Basis of Preparation

These general purpose financial report for the year ended 30 June 2015 have been prepared in accordance with requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report also complies with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on historical costs, except for the Group’s sandalwood tree plantations (which are biological assets), available for sale financial assets 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. Cost is based on the fair values of the consideration given in exchange for assets. The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$’000) unless otherwise stated.

Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by TFS at the end of the reporting period. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the equity holders of the parent of the Group and to the non-controlling interests.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while and resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *AASB 139 Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within short term borrowings in current liabilities on the statement of financial position.

(c) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount, or the amount due, less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The amount provided for is the portion deemed uncollectible after the value of trees as security has been taken into account. Bad debts are written off as incurred. Amounts due from growers are recognised and carried at the amount stated in the loan agreement plus accrued interest, less any principal repayments received.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. For harvested trees costs is fair value less estimated costs to sell at the point of harvest plus harvesting, conversion, and processing costs.

Raw materials are valued at weighted average cost. Work in progress and finished goods are valued at weighted average cost of direct materials and an appropriate portion of fixed and variable overhead expenses.

Inventories also consist of tree seedlings and seed stock intended for sale as part of the woodlots, which form the managed investments, by a wholly owned subsidiary of the parent company. It also includes stock of sandalwood related products and raw materials which are available for sale as well as some components of the Group's land that has been identified for sale in the ordinary course of business.

(e) Impairment of Non-financial Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- | | |
|--|-----------------------|
| • Disclosures for significant assumptions | Note 1(y) |
| • Property, plant and equipment | Note 1(f) |
| • Intangible assets | Note 1(v) and Note 12 |
| • Goodwill and intangible assets with indefinite lives | Note 12 |

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of profit or loss.

Plant & Equipment

Plant and equipment are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any. The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts using a value-in-use method.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciable on either a straight line or diminishing balance basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The depreciation rates used for each class of depreciable assets are:

Buildings	2-4%
Leasehold improvements	10-20%
Plant and equipment	5-67%

An asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Property

Freehold land and buildings are shown at their fair value (refer note 1(aa)), based on periodic, but at least three to five years, valuations by external independent valuers.

Land will be transferred from being classified as property held for own use to inventory as and when it is determined that the land has been set aside for sale in the ordinary course of the Group's business. On transfer the fair value of the land will become the deemed cost for inventory valuation purposes. Land held as inventory is subsequently valued at the lower of cost (deemed) and net realisable value.

(g) Biological Assets

The Group has interests in sandalwood tree plantations (the biological assets) through plantation areas established and maintained on its own account and interests in some of the managed investment schemes which have been either purchased by the Group from the grower or reverted to the Group as a result of default by an original grower and forfeiture of their plantation interest.

The sandalwood trees are measured at the Director's assessment of their fair value less cost to sell at each reporting date. The fair value is determined as being the net present value of the expected future cash flows at harvest (discounted at a risk adjusted rate).

Net increments or decrements in the fair value less cost to sell of the sandalwood trees are recognised as income or expenses in profit or loss, determined as the difference between the total fair values less cost to sell of the trees recognised as at the beginning of the year and the total fair values less cost to sell of the trees recognised as at the reporting date.

Key assumptions used to value the trees are set out in Note 11.

Costs incurred in maintaining or enhancing trees are capitalised when incurred and are classified as additions at cost before the determination of the net increment in fair values.

Plantations which are expected to be harvested, processed and monetised within 12 months are classified as a current asset. All other biological assets are classified as a non-current asset.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(h) Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are carried at amortised cost. Interest is recognised as an expense using the effective interest method. Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates

(i) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the Group, are classified as finance leases.

Finance leases or Hire Purchase arrangements are capitalised by recording an asset and a liability at the lower of the amounts equal to fair value of the leased property or the present value of the minimum lease payments. Lease payments are allocated between the reduction of the lease or hire purchase liability and the lease interest for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease period.

(j) Revenue and Other Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. All revenue is stated net of the amount of goods and services tax (GST). The following specific recognition criteria must also be met before revenue is recognised:

Operating Revenue

- Establishment fee revenues in connection with sale of timber lots under an MIS project or under other timber lot establishment contracts are recognised on a percentage completion basis by reference to the proportion of establishment work performed at balance date. In arriving at the proportion of work performed to balance date all directly attributable work is assessed including activities relating to land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account.
- Lease and Management Fees are recognised as revenue as the management services are provided in the period to which they relate, while lease fees are recognised on a straight line basis over the term of the lease.
- Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. For export sales, revenue from sales made on commercial terms is recognised when title for the commodity transfers to the customer.
- Land sales are brought to account on the signing of a contract of sale, transaction has become in substance unconditional and substantially all of the risk and reward of ownership of land has been transferred to the buyer.

Interest Revenue

Interest revenue is recognised using the effective interest rate method.

Dividend Revenue

Dividend revenue is recognised when a right to receive a dividend has been established. Dividends received from investments accounted for under the equity method and joint venture entities are accounted for in accordance with the equity method of accounting.

(k) Unearned Income

The unearned portion of the establishment fees that are not recognised as revenue for the year based on the percentage of completion method disclosed at Note 1(j) are deferred and classified as unearned income.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(I) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, investments accounted for under the equity method, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

TFS Corporation Ltd, the head entity, and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Using the Group allocation approach, each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity in addition to its own current and deferred tax amounts. The current tax liability of each group entity is then subsequently assumed by the parent entity. The Group nominated to become consolidated for taxation purposes on 1 July 2003.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed below. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities. Members of the tax consolidated group and the tax sharing arrangement

Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The Group has applied The Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement, the funding of tax within the Group is based on accounting profit. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under the accounting policy, the head entity accounts for these as equity transactions with the subsidiaries. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

(m) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, and for the GST component of cash flows arising from investing and financing activities, are classified as part of operating cash flows.

(n) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Employee benefits not expected to be wholly settled within one year are classified as long term benefits and have been measured at the present value of the estimated future cash outflows to be made for these benefits using the projected unit credit method. Consideration is given to current wage and salary levels to match as closely as possible, the estimated future cash outflows.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(o) Employee Benefits – Share Based Payment

Equity settled transactions

The Group provides benefits to its employees (including KMP) in the form of share-based payments. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of TFS Corporation Ltd (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of

i) *The grant date fair value of the award.*

(ii) *The expired portion of the vesting period.*

The charge to the profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 27).

The Group expenses equity-settled share-based payments such as share and performance rights issues after ascribing a fair value to the shares and/or performance rights issued. The fair value of option and share plan issues of option and share plan shares are recognised as an expense together with a corresponding increase in the share based payments reserve or the share option reserve in equity over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

The value of shares issued to employees financed by way of a non-recourse loan under the employee TFS LTIP are considered, for accounting purposes, to be options.

Own equity instruments issued under non-recourse loan arrangements are considered treasury shares. Consideration received in the form of services from employees is recognised in share based payments reserve. Upon the exercise of the option under the non-recourse loan, cash paid by employees to settle the loan, being the exercise price for the option, is recognised as issued capital. The treasury share is also transferred to fully paid capital.

(p) Earnings per share

Basic earnings per share is determined by dividing the net result after income tax attributable to members of the company after adjusting for interest on the convertible preference shares, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the net result after income tax attributable to members of the company after adjusting for the effects of dilutive potential ordinary shares, excluding any costs of servicing equity other than ordinary shares, by the sum of the weighted average number of ordinary shares and the weighted average number of dilutive options outstanding during the financial year.

(q) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Financial assets - Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

Financial assets at fair value through profit and loss

A financial asset is classified in this category when they are either held for trading for the purpose of short term profit taking, derivatives not designated as effective hedging instruments, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluations where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. Loans and receivables maturing after 12 months from the end of the reporting period are classified as non-current assets and are measured under the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost.

These investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature or they are designated as such by management. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities - Initial recognition and subsequent measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables as appropriate. All financial liabilities are recognised initially at fair value and in the case of loans, borrowings and payables, net of directly attributable transaction costs.

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial Liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The latter category includes the External MIS grower liabilities that relate to third party grower interests in Managed Investment Schemes consolidated by the Group. These liabilities have been designated at fair value through profit or loss on initial recognition to eliminate a measurement inconsistency that would otherwise arise from the recognition and measurement of the relevant Schemes' biological assets at fair value less costs to sell.

Loans & borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

(r) Investments in Associates

Associate companies are companies in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investor but does not have control or joint control over these policies. Investments in associate companies are recognised in the financial statements by applying the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the relation to the Group's investment in the associate. When the reporting dates of the Group and the associate are different, the associate prepares, for the Group's use, financial statements as of the same date as the financial statements of the Group with adjustments being made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

When the Group's share of losses in an associate equals or exceeds its interest in the investment accounted for under the equity method, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume the recognition of its share of those profits once its share of the profits equals the share of the losses not recognised.

Details of the Group's investments accounted for using the equity method are shown at Note 13.

(s) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using the pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets, except Biological Assets, that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

(u) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(v) Intangibles

Supply Agreements

Supply Agreements are recognised at cost of acquisition. The supply agreements have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. The supply agreements will be amortised over the life of the agreement, from the commencement of supply.

Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
 - (ii) any non-controlling interest; and
 - (iii) the acquisition date fair value of any previously held equity interest,
- over the acquisition date fair value of net identifiable assets acquired.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). The Group determines which method to adopt for each acquisition.

Under the full goodwill method, the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Refer to Note 12 for information on the goodwill policy adopted by the Group for acquisitions.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in investments accounted for under the equity method.

Goodwill is tested for impairment annually as at 30 June and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

Deferred lease & management fees – Accrued Income receivable

The Group sells plantation investments where the investor has the option to pay lease and management fees either (i) annually, or (ii) to defer the payment of these fees as a proportion of the net harvest proceeds. The recognition of the deferred fees is classified as an intangible asset in these financial statements.

Accrued income receivable is calculated as the amount of lease and/or management fees that would have been received up to balance date by the Company under the annual payment option had they not been deferred. The balance of the accrued income receivable should however not exceed the sum of the net present value of future revenues, which is calculated by multiplying the expected net harvest proceeds from the investor's plantations by the Groups proportional entitlement to those revenues as agreed with the investors. The key assumptions used in calculating the future revenues and their present day value are set out in Note 11.

Deferred fees are derecognised once realised post-harvest.

(w) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Operations

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(x) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and Directors' report have been rounded off to the nearest \$1,000.

(y) Significant accounting judgements, estimates and assumptions

The Directors make estimates and judgements 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.

Key Judgement – Control of other entities

An entity is included within the consolidated financial statements where the Group has control over the entity. Control arises from exposure, or rights, to variable returns from involvement with an entity, where the Group has the ability to affect those returns through its power over the entity. Judgement is applied by management in assessing whether control exists. This involves assessment of the purpose and design of the entity and identification of the activities which significantly affect that entity's returns and how decisions are made about those activities. In assessing how decisions are made, management considers voting and veto rights, contractual arrangements with the entity or other parties, and any rights or ability to appoint, remove or direct key management personnel or entities that have the ability to direct the relevant activities of the entity. Judgement is also applied in identifying the variable returns of each entity and assessing the Group's exposure to these returns. Variable returns include distributions, exposure to gains or losses and fees that may vary with the performance of an entity.

The Group has interests in a number of Managed Investment Schemes. As a wholly owned subsidiary is the Responsible Entity for these schemes it has the power to affect the returns of the schemes through contractual arrangement, for example by its management of the plantations. To assess whether the Group is exercising its decision making rights in the capacity of a principal or agent, the group considers a number of factors including the quantum of its exposure to variable returns. In determining the Group's exposure to variable returns from these schemes, the direct and indirect interests are considered and converted into a measure of the Group's overall effective economic interest in the scheme. Where this economic interest is 30% or more of total returns, the Group considers that for accounting purposes it has control over the scheme.

Key Estimate – Provision for Impairment of Receivables

The Group assesses the likelihood of any impairment of the Group's receivables (including within the loan book) at each reporting date by evaluating those payments that are in arrears and making a judgement as to the likelihood of that receivable not being paid based on all knowledge available of the debtor. When recovery is assessed as doubtful, the Group estimates by how much the security held by the Group against the receivable will be insufficient to adequately cover the debt and the impact on the estimated future cash flows of the financial asset, before any impairment of the receivables is provided for accordingly.

The total provision for impairment of receivables at year end are shown in Notes 5 and 8. The value "and adequacy" of security is determined using the following key estimate for Biological Asset valuation.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Key Estimate and Judgement – Biological Asset valuation

As referred to in Note 1(g), as required under Australian Accounting Standards the Directors have made an estimate as to the fair value less cost to sell of the standing sandalwood trees held by the Group from year one through to harvest. The carrying value of the sandalwood trees at the reporting date is shown in Note 11. The fair value less cost to sell is calculated as the net present value of expected future cash flows. The biological asset valuation is sensitive to estimates used in calculating the expected future cash flows which include key assumptions on yields of heartwood, oil content, survival rates and the number of trees, as well as assumptions as to the future price of sandalwood oil and the USD exchange rate.

The Group also include assumptions on the expected future harvesting and processing (oil extraction) costs. All estimates are based on the best information currently available and where there is any doubt the Group uses the more conservative estimates.

Variations to expected future cash flows, and timing thereof, could result in significant changes to the biological asset valuation, which in turn could impact future financial results.

The determination of heartwood yield requires significant judgement. In making this judgement, the Group evaluates, among other factors, the growth rates and survival rates achieved to date.

Key Estimate – Accrued Income Receivable

As detailed in Note 1(k) the Group recognises an estimate of future earnings from deferred fees as accrued income receivable in the financial statements.

Accrued income receivable is calculated as the amount of lease and/or management fees that would have been received up to balance date by the company under the annual payment option had they not been deferred. The balance of the accrued income receivable should however not exceed the sum of the net present value of future revenues, which is calculated by multiplying the expected net harvest proceeds from the investors' plantations by the Groups proportional entitlement to those revenues as agreed with the investors. The carrying value of the accrued income receivable at year end is shown in Note 12.

Key Estimate and Judgement – Land valuation

At year end the Directors are required to make an assessment as to the fair value of land held. In assessing the fair value of land held the Directors referred to an independent market appraisal done at the end of the 2012 financial year.

In the intervening period, judgement is required in determining if the carrying value continues to approximate the fair value of the land. In making this judgement, the Group evaluates the impact of market conditions and arm's length transactions during the intervening period. The value of land at year end is shown in Note 10.

Key Estimate – Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation are based on the best estimates of Directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income tax legislation, and the Directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that Directors' best estimate, pending an assessment by the Australian Taxation Office.

Key Estimate – Operating Revenue

As detailed in Note 1(k) the Group recognises establishment fee revenues in connection with sale of timber lots under a MIS project or other timber lot establishment contracts based on the proportion of establishment work performed at balance date.

In arriving at the proportion of work performed to balance date all directly attributable work is assessed including activities relating to land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account. Revenue recognition starts when the contract outcome can be reliably measured for the MIS project, as soon as an establishment contract is signed.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Key Judgement – Environmental issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation and the Directors understanding thereof. At the current stage of the company's development and its current environmental impact the Directors believe such treatment is reasonable and appropriate.

Key Judgement and Estimate – Land restoration provision

As part of the Group's operations it has undertaken several land leases to establish and maintain Sandalwood plantations on behalf of growers or the Group. A requirement of these land lease agreements is that the Group has a legal obligation to restore the land to either its original condition or to that specified within the lease agreement upon the completion of the lease. The provision will arise upon disturbing the land from its original condition.

The provision recognised represents the Group's best estimate of the present value of the future costs required to restore the land to its original condition at the end of the lease term, or to that specified within the contract. The total provision for land restoration at year end is shown in Note 19.

Key Judgement and Estimate – Goodwill impairment

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing an estimate is required of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at 30 June 2015 is set out in note 12 and no impairment losses have been recognised to date.

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

Key Judgement – Put option

The Group entered into sales transaction in prior years with select high net worth growers and an institutional investor. A term included in these contracts is the option held by these investors to return these trees to the Group at a predetermined date and exercise price. This has been disclosed in Note 33 (Contingent Liabilities). The Group has considered it unlikely that the option will be exercised and has recognised these sales.

Key Judgement – Performance fees

As part of the Group's institutional (and high net worth investor sales) the Group will be paid a performance fee if the performance of the investment exceeds certain levels. Judgement is required in determining the likelihood of these performance fees being achieved and when revenue associated with the performance fees should be recognised. No value is attributed to these performance fees in the 2015 results.

(z) Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports to the Audit Committee.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as valuation reports is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of AASB 13 *Fair Value Measurement*, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board of Directors.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values of assets or liabilities are categorised into different levels in the fair value hierarchy based on the lowest input used in the valuation techniques as follows:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 10: Property, Plant and Equipment; and
- Note 11: Biological Assets.

Management assessed that cash and short-term deposits, trade receivables, other current financial assets, trade payables and other current liabilities carrying amounts approximate their fair values largely due to the short-term maturities of these instruments.

Long term receivables, other non-current financial assets and financial liabilities are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, as at 30 June 2015, the carrying amounts of such receivables, other non-current financial assets and financial liabilities, were deemed to not be materially different from their calculated fair values (all transactions are done at arm's length).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(aa) New Accounting Standards for Application in Future Periods

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early and their impact has yet to be assessed.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis. Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. - Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. - Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. - Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. - Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss	1 January 2018	1 July 2018

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.	1 January 2018	1 July 2018
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require: (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i>, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations. This Standard also makes an editorial correction to AASB 11.	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	1 July 2016
AASB 15	Revenue from Contracts with Customers	In May 2014, the IASB issued IFRS 15 <i>Revenue from Contracts with Customers</i>, which replaces IAS 11 <i>Construction Contracts</i>, IAS 18 <i>Revenue</i> and related Interpretations (IFRIC 13 <i>Customer Loyalty Programmes</i>, IFRIC 15 <i>Agreements for the Construction of Real Estate</i>, IFRIC 18 <i>Transfers of Assets from Customers</i> and SIC-31 <i>Revenue—Barter Transactions Involving Advertising Services</i>).	1 January 2017	1 July 2017

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15	Revenue from Contracts with Customers	The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation Early application of this standard is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. Performance obligations will need to be identified at contract inception and determined based on contractual terms and customary business practice with a focus on whether the good or service is capable of being distinct and whether the good or service is distinct in the context of the contract. Under the standard, variable consideration are also estimated and included in the transaction price using either the expected value approach or the most likely amount approach, whichever best predicts the consideration to which the entity is entitled.	1 January 2017	1 July 2017
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	AASB 2014-9 amends AASB 127 <i>Separate Financial Statements</i>, and consequentially amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i>, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. AASB 2014-9 also makes editorial corrections to AASB 127. AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	1 July 2016

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require: (a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	1 July 2016
ASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	The subjects of the principal amendments to the Standards are set out below: <i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i> - Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change. <i>AASB 7 Financial Instruments: Disclosures:</i> - Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is ‘continuing involvement’ for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7. - Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure–Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134. <i>AASB 119 Employee Benefits:</i> - Discount rate: regional mark–t issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.	1 January 2016	1 July 2016

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reference	Title	Summary	Application date of standard	Application date for Group
ASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	AASB 134 Interim Financial Reporting: Disclosure of information ‘elsewhere in the interim financial–report’ -amends AASB 134 to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB’s Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	1 July 2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	The Standard completes the AASB’s project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	1 July 2015
AASB 2015-4	Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent	The amendment aligns the relief available in AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i> in respect of the financial reporting requirements for Australian groups with a foreign parent	1 July 2015	1 July 2015

The following standards and interpretations were applied for the first time by the Group during the year which resulted in changes to presentation and disclosures but had no material impact on the financial position or financial performance of the Group.

Reference	Title	Application date of standard	Application date for Group
AASB 2012-3	<i>Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities</i> AASB 2012-3 adds application guidance to AASB 132 <i>Financial Instruments: Presentation</i> to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 July 2014
AASB 2013-3	<i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i> AASB 2013-3 amends the disclosure requirements in AASB 136 <i>Impairment of Assets</i> . The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	1 July 2014

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reference	Title	Application date of standard	Application date for Group
AASB 1031	<i>Materiality</i> The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed. AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014.	1 January 2014	1 July 2014
AASB 2013-9	<i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i> The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.	1 January 2014	1 July 2014
AASB 2014-1– Part A -Annual Improvements 2010–2012 Cycle	AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) <i>Annual Improvements to IFRSs 2010–2012 Cycle</i> and <i>Annual Improvements to IFRSs 2011–2013 Cycle</i>. Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items: ▶ – AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. ▶ – AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137. ▶ – AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets. ▶ AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. ▶ AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 <i>Related Party Disclosures</i> for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.	1 July 2014	1 July 2014

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reference	Title	Application date of standard	Application date for Group
AASB 2014-1– Part A -Annual Improvements 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items: ▶ –AASB 13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132. ▶ AASB 140 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.	1 July 2014	1 July 2014

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$'000	2014 \$'000
NOTE 2: REVENUE AND OTHER INCOME			
Sales revenue:			
Revenue from sales and services		139,919	116,494
Revenue from land sales		7,045	7,350
Revenue from product sales		27,662	20,450
Revenue from farming operations		-	11
Interest received		1,215	1,236
Interest on grower loans		2,266	2,046
Total sales revenue		178,107	147,587
Other income:			
Profit on disposal of plant and equipment		(27)	13
Gain on revaluation of biological assets – TFS interest	11	136,632	63,301
Sundry		3,336	-
Gain on settlement of trade debtor		(11)	1,320
Total other income		139,930	63,634
Total revenue and other income		318,037	212,221

	Note	2015 \$'000	2014 \$'000
NOTE 3: PROFIT FOR THE YEAR			
The profit from ordinary operations before income tax includes the following items of expenditure whose disclosure is relevant in explaining the financial performance of the Group:			
Borrowing and finance charges – external		22,450	20,064
Depreciation on non-current assets		7,859	5,545
Amortisation on non-current assets		716	1,090
Operating lease rental		5,711	4,149
Bad debts and provision for impairment expense / (recouped)		1,114	(191)
Provision for impairment of deferred lease and management fees	12	3,483	(4,637)
Employee benefits – superannuation		1,506	1,445
Realised foreign exchange (gain) / loss		(5,350)	802
Unrealised foreign exchange (gain) / loss ⁽ⁱ⁾		38,979	(5,910)

⁽ⁱ⁾ Unrealised foreign exchange (gain) / loss relates to the translation of the Group's US Dollar denominated financial assets and liabilities. This (gain) / loss does not include the foreign exchange movement impact on the revaluation of the Group's biological assets (Note 11: Biological Assets), which uses a US dollar denominated oil price. The impact on the current year was a gain of \$94.707m compared to a loss of \$8.242m in 2014.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

Note	2015 \$'000	2014 \$'000
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NOTE 4: TAXATION

(a) Components of tax expense

Current tax	4d	1,819	8,078
Deferred tax		43,626	23,828
(Over) / under provision in respect of prior periods		(1,204)	263
Income tax (benefit) / expense recognised in the current year		<u>44,241</u>	<u>32,169</u>

(b) Income tax expense

The prima facie tax payable on the operating profit / (loss) is reconciled to the income tax provided in the accounts as follows:

Prima facie income tax from ordinary activities at 30% (2014: 30%)		47,179	34,398
Tax effect of permanent differences			
- (Over) / under provision of prior year		(1,204)	263
- Other		(1,734)	(2,492)
Income tax (benefit) / expense recognised in profit and loss		<u>44,241</u>	<u>32,169</u>

The applicable weighted average effective tax rates are as follows: 28% 28%

(c) Tax effects relating to each component of comprehensive income

	2015			2014		
	Before tax amount \$'000	Tax benefit \$'000	Net of tax amount \$'000	Before tax amount \$'000	Tax benefit \$'000	Net of tax amount \$'000
Net gain on uplift of land of an associated entity	106	(31)	75	480	(144)	336
Revaluation of land and buildings	370	(111)	259	-	-	-
	<u>476</u>	<u>(142)</u>	<u>334</u>	<u>480</u>	<u>(144)</u>	<u>336</u>

2015 \$'000	2014 \$'000
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(d) Tax assets and liabilities

CURRENT

Current tax liabilities	<u>7,772</u>	<u>13,401</u>
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 4: TAXATION
NON CURRENT**

	Opening balance \$'000	Charged to income \$'000	Charged directly to equity \$'000	Changes in tax rate \$'000	Exchange differences \$'000	Closing balance \$'000
Deferred tax liabilities						
Sandalwood tree unrealised gain not assessable	65,334	43,760	-	-	-	109,094
Deferred income accrual not assessable	20,077	8,032	-	-	-	28,109
Plant & equipment – tax depreciation allowance	4,950	1,570	-	-	-	6,520
Unrealised foreign exchange	-	7	-	-	-	7
Revaluation adjustments	3,801	-	111	-	-	3,912
Balance at 30 June 2015	94,162	53,369	111	-	-	147,642
Deferred tax assets						
Sandalwood tree unrealised gain not assessable	41,267	24,067	-	-	-	65,334
Deferred income accrual not assessable	19,500	577	-	-	-	20,077
Plant & equipment – tax depreciation allowance	4,318	632	-	-	-	4,950
Revaluation adjustments	3,801	-	-	-	-	3,801
Balance at 30 June 2014	68,886	25,276	-	-	-	94,162
Deferred tax assets						
Provisions for accruals	2,071	789	-	-	-	2,860
Taxable unearned MIS income	7,321	(2,191)	-	-	-	5,130
Unrealised foreign exchange	4,179	11,679	-	-	-	15,858
Transaction costs on equity issue	791	-	(295)	-	-	496
Transaction costs on debt raising	1,060	(535)	-	-	-	525
Balance at 30 June 2015	15,422	9,742	(295)	-	-	24,869
Provisions for accruals	1,118	953	-	-	-	2,071
Taxable unearned MIS income	4,530	2,791	-	-	-	7,321
Unrealised foreign exchange	5,952	(1,773)	-	-	-	4,179
Transaction costs on equity issue	348	-	443	-	-	791
Transaction costs on debt raising	1,583	(523)	-	-	-	1,060
Balance at 30 June 2014	13,531	1,448	443	-	-	15,422

	2015 \$'000	2014 \$'000
NOTE 5: TRADE & OTHER RECEIVABLES (CURRENT)		
Trade debtors	62,058	65,206
Allowance for impairment of receivables	(1,171)	(316)
	60,887	64,890
Loan to growers (a)	29,479	11,302
Bonds and deposits	27	22
Prepayments	2,879	4,312
	93,272	80,526

(a) Aggregate amounts payable by related parties included in loans to growers:

Director related	6,603	1,818
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 5: TRADE & OTHER RECEIVABLES (CURRENT)

(b) Terms and conditions

The terms and conditions relating to the above financial instruments:

- (i) Trade debtors are non interest bearing and generally of terms between 30 days and 12 months.
- (ii) Details of the terms and conditions of related party receivables are set out in Note 39.
- (iii) Loans to growers and trade debtors are secured by the right, title and interest in the sandalwood trees until the loan and any outstanding accrued interest are discharged.

	2015 \$'000	2014 \$'000
(c) Ageing of past due but not impaired		
60 – 90 days	815	1,013
90 – 120+ days	1,769	10,058
Total	2,584	11,071
(d) Movement in the allowance account for impairment of receivables (current)		
Balance at the beginning of the year	316	578
Impairment losses recognised on receivables	1,010	66
Amounts (written off) as uncollectible	(3)	(38)
Amounts recovered during the year	(46)	(120)
Impaired losses reversed	(106)	(170)
Total	1,171	316

In determining the recoverability of a trade receivable, the Group considers the change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. The security will often be the value of the TFS tree lots that related to the debtor balance. It is not unusual for debtors to extend beyond 120 days due to the availability of payment terms under the projects. See point (c) for amounts past due but not impaired.

The basis for estimating the fair value of the grower tree lots is exactly the same as for trees owned by the Group. As required under the Accounting Standards the Directors of the related entity make an estimate as to the fair value of the standing sandalwood trees held by the related entity. The fair value is calculated as the net present value of expected future cash flows. The estimates used in calculating the expected future cash flows are set out in Note 11.

(e) Credit Risk

Included within the balance of trade receivables are one wholesale institutional debtors amounting to \$22.000m. Management of the Group's trade receivable credit risk is set out in Note 31 (a). During the year, growers who defaulted on their payment terms is quantified at less than \$500,000, which represents less than 1% of the total loan book.

NOTE 6: INVENTORIES (CURRENT)

At cost:

	2015 \$'000	2014 \$'000
Land held for resale	12,622	7,718
Finished goods	7,646	5,896
Work in progress	15	14
Seedlings at cost	340	72
Seed stock	800	680
Harvested trees	240	5
Raw materials	2,135	1,113
Less: Provision for obsolete stock	(138)	(65)
	23,660	15,433

Land is considered current if it's going to be sold, in the ordinary course of business, within the next 12 months.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**NOTE 7: OTHER FINANCIAL ASSETS (CURRENT)**

Cash deposit – MIS Custodian Accounts

2015 \$'000	2014 \$'000
3,000	3,239
-	40
55	3,199
2,945	-
3,000	3,239

Cash deposit – MIS Custodian Accounts consists of 50% of establishment fees on new MIS sales relating to the following years.

TFS Sandalwood Project 2013

TFS Sandalwood Project 2014

TFS Sandalwood Project 2015

These establishment fees are kept in an interest bearing trust account, which is maintained by an independent custodian. The funds will be released quarterly to the Group until the completion of establishment services.

NOTE 8: TRADE & OTHER RECEIVABLES (NON CURRENT)

Loan to growers (a)

Provision for impairment of receivables

2015 \$'000	2014 \$'000
30,582	38,557
-	(47)
30,582	38,510
12,958	8,590
43,540	47,100

Other receivable (b)

Total receivables

(a) Loan to growers are due for repayment as follows

- Later than one year but no later than five years
- Due later than five years

(d) Included in Other non-current receivable is \$6.379m (2014: \$4.162m) relating to research and development funding to an associated company (Santalis Pharmaceutical Inc) to be recovered upon the successful commercialisation of Santalis' pharmaceutical products (refer to Note 32 regarding the funding commitment).

(c) Aggregate amounts payable by related parties included in loans to growers:

Director related

2015 \$'000	2014 \$'000
5,459	11,579

(d) Refer to Note 31 for details of the credit quality of non-current trade receivables.

(e) Movement in the provision for impairment of receivables (current)

Balance at the beginning of the year

Impairment losses recognised on receivables

Amounts (written off) as uncollectible

Amounts recovered during the year

Impaired losses reversed

Total

47	20
-	32
(47)	-
-	-
-	(5)
-	47

During the year, growers who defaulted on their payment terms is quantified at less than \$10,000 (2014: \$40,000 of debtors was defaulted).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 8: TRADE & OTHER RECEIVABLES (NON CURRENT)

In determining the recoverability of a trade receivable, the Group considers the change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. The security will often be the value of the TFS tree lots that related to the debtor balance. At balance date \$215,113 (2014: \$368,230) of grower loan repayments were in arrears, but not classified as impaired, due to the underlying tree value (security) being higher than the amounts in arrears.

The basis for estimating the fair value of the grower tree lots is exactly the same as for trees owned by the related entity of the Group. As required under the Accounting Standards the Directors of the related entity make an estimate as to the fair value of the standing sandalwood trees held by the related entity. The fair value is calculated as the net present value of expected future cash flows. The estimates used in calculating the expected future cashflows are set out in Note 11.

NOTE 9: OTHER FINANCIAL ASSETS (NON CURRENT)

	2015 \$'000	2014 \$'000
Cash deposit – First Loss Account (a)	2,271	2,965
Cash deposit – Bank Guarantee Facility	2,452	2,452
Cash deposit – MIS Custodian Accounts (b)	2,207	1,687
Other	19	-
	6,949	7,104

(a) See note 33: Contingent Liabilities

(b) Cash deposit – MIS Custodian Accounts consists of the following:

TFS Sandalwood Project 2012 – Upfront Annual Fee and Rent	790	775
TFS Sandalwood Project 2013 – Upfront Annual Fee and Rent	399	389
TFS Sandalwood Project 2014 – Upfront Annual Fee and Rent	536	523
TFS Sandalwood Project 2015 – Upfront Annual Fee and Rent	482	-
	2,207	1,687

The funds are kept in an interest bearing trust account, which is maintained by an independent custodian and shall be released to the Group in satisfaction of the annual fee and rent for year 14 of the applicable project. Prior to lease and management services being provided, an offsetting amount is recognised as unearned income (refer Note 18).

NOTE 10: PROPERTY, PLANT & EQUIPMENT (NON CURRENT)

	2015 \$'000	2014 \$'000
Plant & Equipment – at cost	91,334	73,218
Less: Accumulated depreciation	(29,105)	(21,548)
	62,229	51,670
Land & Buildings – at fair value (d)	83,745	68,234
Less: Accumulated depreciation	(1,400)	(1,224)
	82,345	67,010
Total property, plant & equipment	144,574	118,680

(a) Movements in the carrying amount for each class of property, plant & equipment between the beginning and the end of the current financial period.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 10: PROPERTY, PLANT & EQUIPMENT (NON CURRENT)

	2015 \$'000	2014 \$'000
<i>Land & Buildings</i>		
Carrying amount at the beginning of the year	67,010	54,771
Additions	6,813	1,602
Transfers from inventory	8,327	11,156
Revaluation	370	-
Depreciation expense	(175)	(519)
Carrying amount at the end of the year	<u>82,345</u>	<u>67,010</u>
<i>Leasehold improvements</i>		
Carrying amount at the beginning of the year	177	143
Additions	43	52
Depreciation expense	(20)	(18)
Carrying amount at the end of the year	<u>200</u>	<u>177</u>
<i>Other plant & equipment</i>		
Carrying amount at the beginning of the year	51,493	38,593
Additions	19,531	18,338
Disposals	(1,332)	(93)
Depreciation expense	(7,663)	(5,345)
Carrying amount at the end of the year	<u>62,029</u>	<u>51,493</u>
(b) If land & buildings were stated at historical costs, amounts would be:		
Cost	69,808	54,950
Accumulated depreciation	(176)	(519)
	<u>69,632</u>	<u>54,431</u>
(c) Carrying amount of plant & equipment in the course of construction	<u>239</u>	<u>14</u>

Fair Value Measurement of the Group's Freehold Land and Buildings

(d) The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 30 June 2015 were based on the independent and external property and land valuer obtained at the end of the 30 June 2012 financial year. The market appraisal was performed by Landnorth Consulting, a Licensed Real Estate Agent, with the appropriate qualifications and recent experience to fair value properties in the relevant locations. Properties were valued at their highest and best use which is consistent with current use. An independent valuation is expected to be performed during the 2016 financial year.

All fair value estimates for land and buildings are included in level 3 of the fair value hierarchy. The key input under the market comparable method adopted is the price per hectare (ranging from \$10,000 to \$30,000 per hectare) based on current year sales of comparable lots of land in the same area (location and size). A 10% increase in the price per hectare will result in a higher fair value by \$7.615m.

Details of the Group's freehold land and buildings and information about the fair value hierarchy, referred to in note 1 (aa) as at 30 June 2015 and 30 June 2014 are as follows:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Fair Value as at 30 June 2015 \$'000
Freehold land	-	-	76,897	76,897
Buildings	-	-	5,448	5,448
	<u>-</u>	<u>-</u>	<u>82,345</u>	<u>82,345</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 10: PROPERTY, PLANT & EQUIPMENT (NON CURRENT)

	Level 1	Level 2	Level 3	Fair Value as at 30 June 2014
	\$'000	\$'000	\$'000	\$'000
Freehold land	-	-	61,970	61,970
Buildings	-	-	5,040	5,040
	-	-	67,010	67,010

(e) BTA Institutional Services Australia Limited (the security trustee for the 11% Senior Secured Note holders) has a fixed and floating security over all the assets of the Group, which includes a first registered mortgage over freehold properties owned by the Group. The freehold land is also subject to caveats which were lodged by the Group on behalf of sandalwood project investors. These caveats protect the growers' leasehold interest in project land. The Group has registered collateral leases over the freehold land which further protects the growers' interest in project land.

NOTE 11: BIOLOGICAL ASSETS:

Sandalwood plantation at cost:

	2015 \$'000	2015 \$'000	2015 \$'000
	TFS INTEREST (i) (ii)	EXTERNAL MIS GROWER INTEREST (iii)	TOTAL
Opening balance	221,268	53,997	275,265
Additions / Disposal (v)	19,064	(176)	18,888
Plantation re-acquired	965	-	965
Less: Harvested trees transferred to inventory	(32)	-	(32)
	241,265	53,821	295,086
Add: Fair value adjustment to sandalwood plantation:			
Opening balance	126,837	32,138	158,975
Gain / (loss) on re-measurement to fair value	136,632	34,226	170,858
Additions / disposal	-	(147)	(147)
Less: Harvested trees transferred to inventory	(198)	-	(198)
	263,271	66,217	329,488
Total Biological Assets	504,536	120,038	624,574
Classified as current (iv)	17,564	-	17,564
Classified as non current	486,972	120,038	607,010

	2014 \$'000	2014 \$'000	2014 \$'000
	TFS INTEREST	EXTERNAL MIS GROWER INTEREST	TOTAL
Sandalwood plantation at cost:			
Opening balance	127,195	-	127,195
Additions / disposal	87,573	53,997	141,570
Plantation re-acquired	6,909	-	6,909
Less: Harvested trees transferred to inventory	(409)	-	(409)
	221,268	53,997	275,265
Add: Fair value adjustment to sandalwood plantation:			
Opening balance	64,266	-	64,266
Gain / (loss) on re-measurement to fair value	63,301	(1,230)	62,071
Additions / disposal	-	33,368	33,368
Less: Harvested trees transferred to inventory	(730)	-	(730)
	126,837	32,138	158,975
Total Biological Assets	348,105	86,135	434,240

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 11: BIOLOGICAL ASSETS

- (i) Biological assets are encumbered to the extent set out in note 10(e).
- (ii) This represents plantations owned by TFS and TFS' direct interest within MIS.
- (iii) The External MIS grower interest represents the third party grower interest in the biological assets. Certain MIS are consolidated for accounting purposes (Refer notes 1(y) and 29). The Group has a restricted interest in these assets.
- (iv) Biological assets classified as current are expected to be harvested, processed and monetised during the 2016 financial year.
- iv) Additions during the current year of \$19.064m include the acquisition of 25 hectares of 13 year old trees from the investors in the Group's first plantation vintage and 21 hectares of mature sandalwood trees acquired from a HNW investor (who is not a related party).

	2015 No.	2014 No.
(a) Physical quantity of sandalwood trees (TFS interest)	1,022,892	1,015,485
(b) Physical quantity of sandalwood trees (External MIS grower interest)	271,855	279,613

(i) Fair Value Hierarchy

The fair value measurements for biological assets of \$624.574m, (June 2014: \$434.240m) have been categorised as Level 3 on the inputs to the valuation techniques used.

The following information shows the valuation techniques used in measuring fair value less costs to sell, as well as the significant observable and unobservable inputs used.

Valuation Technique

Discounted Cash Flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates until harvest. The expected net cash flows are discounted using a risk-adjusted discount rate.

Significant Observable Inputs

- (i) US Dollar exchange rate used is constant through the valuation model at 1.297 AUD being the spot exchange rate at balance date (June 2014: 1.061 AUD).

Significant Unobservable Inputs

- (i) The trees will be harvested within 13 to 16 years of being planted. The weighted average year of harvest is 15.6 years (June 2014: 15.6 years).
- (ii) Forecast of heartwood production at weighted average of 20.8kg (June 2014: 21.3kg) per sandalwood tree at a 25% moisture content. The forecast heartwood production of each plantation vintage ranges from 6.7kg to 25.6kg per sandalwood tree.
- (iii) Projected oil content from the heartwood of 3.7% (June 2014: 3.7%) from forecast heartwood at a moisture content of 25%.
- (iv) The price of sandalwood oil is determined with due consideration to market transactions and industry projections, arriving at an estimate of \$2,800 USD/kg (June 2014: \$2,500 USD/kg) and not inflated.
- (v) The costs consist of growing, harvesting, processing and marketing and sales cost, including:
 - Harvesting and processing (oil extraction) costs, estimated at \$16,000 (June 2014: \$16,000) per hectare and \$207 (June 2014: \$207) per litre of oil; and
 - Marketing and sales costs, estimated at 5% (2014: 5%) of proceeds.
 - Harvesting and processing (oil extraction cost) are held constant in real terms with an annual inflation rate of 3.0% (June 2014: 3.0%).
- (vi) The post-tax average real rate at which the net cash flows have been discounted range between:
 - 14% (June 2014: 14%) for trees aged 0 to 5 years;
 - 13% (June 2014: 13%) for trees aged 6 to 10 years; and
 - 12% (June 2014: 12%) for trees aged 11 years to harvest age.
- (vii) Cash flows exclude income taxes.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 11: BIOLOGICAL ASSETS

The fair value measurement of biological assets is sensitive to changes in the unobservable inputs which may result in a significantly higher or lower fair value measurement.

- An increase in heartwood production, oil content, sandalwood oil price would result in a higher fair value measurement
- A decrease in heartwood production, oil content, sandalwood oil price would result in a lower fair value measurement
- An increase in harvesting, processing, marketing or plantation maintenance costs would result in a lower fair value measurement
- A decrease in harvesting, processing, marketing or plantation maintenance costs would result in a higher fair value measurement
- A deferral in harvest year may result in higher heartwood production as a more mature tree is harvested, which may result in a higher fair value measurement

Refer to Note 31 for sensitivity analysis on the TFS interest in Biological Asset.

(b) Financial Risk

The Group is exposed to the following risks relating to its sandalwood plantations.

(i) Supply and Demand Risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of sandalwood. When possible, the Group intends to manage this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis for projected harvest volumes and pricing.

(ii) Climate and Other Risks

The Group's sandalwood plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group is also insured against certain natural disasters such as fire and wind damage. The insured value of the plantation under the Group's existing insurance policy is less than the fair value of these plantations, but greater than the cost of re-establishing the plantation.

(iii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group has a natural hedge of this exposure in place by maintaining foreign currency denominated debt that matches the currency exposure described.

NOTE 12: INTANGIBLE ASSETS AND GOODWILL: (NON CURRENT)

	2015 \$'000	2014 \$'000
Goodwill – at cost	20,205	20,205
Supply agreements – at cost	478	478
Accrued income receivable		
Opening balance	66,924	65,000
Recognition of deferred fees	23,430	17,091
Deferred fees on trees acquired by the Group transferred to Biological Asset	-	(10,530)
Deferred fees realised upon harvest	(141)	-
Impairment recovery / (provision)	3,483	(4,637)
Closing balance	93,696	66,924
Total Intangibles	114,379	87,607

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 12: INTANGIBLE ASSETS AND GOODWILL: (NON CURRENT)

Goodwill

Goodwill is allocated to cash generating units which are based on the Group's operating segments.

	2015 \$'000	2014 \$'000
Sandalwood products segment	20,205	20,205

The recoverable amount of the cash generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period plus a terminal value calculation using an estimated growth rate. The cash flows are discounted using a post-tax discount rate adjusted to incorporate risks associated with the segment for the Group at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations:

Sandalwood Products Segment

- (i) Growth rate of 2.00% (30 June 2014: 2.50%).
- (ii) Discount rate of 11.00% (30 June 2014: 11.00%).

Management has based the value-in-use calculations on budgets for the operating segment. These budgets use historical weighted average growth rates to project revenue. These budgets also include future net revenue from the purchases, processing and oil sales from grower and Group owned Indian Sandalwood trees. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which is consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are post-tax and are adjusted to incorporate risks associated with particular segments. The discount rate is calculated using the Weighted Average Cost of Capital plus an adjustment for business risk.

Management also performed sensitivity analysis on the assumptions used in the value-in-use calculation and foresee no material impact in the assessment of goodwill impairment due to reasonably foreseeable changes to the assumptions.

Deferred lease and management fees - Accrued income receivable

The Group performs impairment testing at every reporting date on the total deferred lease and management fees recorded by the Group for services provided for which payment has been deferred by the grower until harvest date. Impairment is recognised when the total deferred lease and management fees exceeds the sum of the net present value of future revenues to be received by the Group at harvest date.

	2015 \$'000	2014 \$'000
Opening balance	7,934	674
Contributions	997	1,615
Disposal	(756)	(234)
Share of net profit for period	5,158	5,879
Closing balance	<u>13,333</u>	<u>7,934</u>

NOTE 13: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Equity accounted profits of associates are broken down as follows:

Share of associate's profit before income tax expense	7,369	8,396
Share of associate's income tax expense	(2,211)	(2,517)
	<u>5,158</u>	<u>5,879</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 13: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

(a) Interests are held in the following associated companies:

Name	Santalus Pharmaceutical Inc.	Un-incorporated contractual arrangement
Principal Activities	Pharmaceuticals	Sandalwood plantation owner
Country of Incorporation	USA	(i)
Shares	Ordinary	(i)
Ownership Interest: 2015	50%	20%
Ownership Interest: 2014	50%	20%
Carrying amount of Investment: 2015	\$-	\$13,333,560
Carrying amount of Investment: 2014	\$-	\$7,352,839

(i) The Group entered into a contractual arrangement with Jarh Tree Co Pty Ltd whereby the Group has significant influence over the operational activities of the arrangement in maintaining and harvesting of the Indian Sandalwood plantation and as such has recognised its share of economic interest from the arrangement as an investment. The contractual arrangement has been established in Australia.

(b) Summarised financial information in respect of the Group's material associate as well as the aggregate information of investments accounted for under the equity method that are not material is set out below.

	2015 \$'000	2014 \$'000
Un-incorporated Contractual Arrangement with Jarh Tree Co Pty Ltd		
Current assets	-	-
Non-current assets : Biological asset	18,104	9,956
Total assets	18,104	9,956
Current liabilities	-	-
Non-current liabilities	4,771	2,603
Total liabilities	4,771	2,603
Net assets	13,333	7,353
Revenues	7,120	8,196
Profit after income tax of Investment	4,984	5,737

Included in the share of Investment's profit is profit derived from a contractual arrangement with Jarh Tree Co Pty Ltd and the profit is due to the movement in the underlying assets being Indian Sandalwood plantation. The valuation methodology and assumptions applied in determining this value is consistent with the methodology and assumptions used in valuing Group owned trees (Note 11: Biological Assets).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 13: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	2015 \$'000	2014 \$'000
Aggregate Information of Investments in Associates that are not Individually Material		
Current assets	-	504
Non current assets : Biological asset	-	484
Total assets	-	988
Current liabilities	-	258
Non current liabilities	-	263
Total liabilities	-	521
Net assets	-	467
Revenues (relates to Northern Development Corporation Ltd)	4,638	4,144
Profit after income tax of investments accounted for under the equity method	174	142
The Group's portion of net assets	-	467
Goodwill	-	114
Carrying amount of the Group's interest in these investments accounted for under the equity method	-	581

In applying the equity method of accounting, the Group has not recognised its share of the losses of the investments accounted for under the equity method for the year of \$4.589m (30 June 2014: \$2.247m).

	2015 \$'000	2014 \$'000
NOTE 14: OTHER ASSETS: (NON CURRENT)		
Water rights	1	1
Land preparation costs	12,290	10,945
Less: Provision for amortisation	(3,780)	(3,064)
	8,510	7,881
Lease land restoration costs ¹	-	5,781
Less: Accumulated amortisation	-	(1,878)
	-	3,903
Total Other Assets	8,511	11,785

	2015 \$'000	2014 \$'000
NOTE 15: TRADE & OTHER PAYABLES: CURRENT		
Unsecured:		
Trade creditors	19,470	48,323
GST payable	4,474	1,415
Dividends payable	80	71
Other creditors and accrued expenses	31,065	13,640
	55,089	63,449

(a) Term and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have an average term of twelve months.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 16: PROVISIONS: (CURRENT)

	2015 \$'000	2014 \$'000
Employee entitlements	2,659	2,223
(a) Movements in carrying amounts		
Opening balance at beginning of the year	2,223	1,685
Additional provisions	1,213	1,483
Provision utilised	(777)	(895)
Balance at the end of the year	2,659	2,223

Provision for Employee entitlements

A provision has been recognised for employee entitlements relating to annual leave and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee entitlements have been included in Note 1(o) to this report.

NOTE 17: FINANCIAL LIABILITIES (CURRENT)

	2015 \$'000	2014 \$'000
Secured:		
Hire purchase liability	9	16

NOTE 18: UNEARNED INCOME (CURRENT)

	2015 \$'000	2014 \$'000
Unearned income	30,361	23,215

Unearned income represents establishment and lease & management fees received in advance of services being provided. The current classification represents that portion of unearned income where the services are to be provided within 12 months of balance date.

NOTE 19: PROVISIONS (NON CURRENT)

	2015 \$'000	2013 \$'000
Lease land restoration	1,816	6,186
(a) Movements in carrying amounts		
Opening balance at beginning of the year	6,186	5,975
Additional provisions	465	162
Interest accretion	-	49
Change in estimated cost	(4,835)	-
Balance at the end of the year	1,816	6,186

A provision has been recognised for costs to be incurred by the Group in restoring leased land to its original condition, or to that specified within the land lease agreement. The provision will be utilised as and when the land leases mature and currently will be over a period of 1 to 16 years, depending on the applicable land lease. The measurement recognition criteria relating to lease land restoration has been included in Note 1(z) to this report.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 20: FINANCIAL LIABILITIES (NON CURRENT)

Secured:

Hire purchase liability

11% senior secured notes (a)

External MIS grower liabilities (b)

2015 \$'000	2014 \$'000
-	9
229,346	159,172
120,038	86,135
<u>349,384</u>	<u>245,316</u>

(a) US\$150 million (A\$194.550m) raised from international markets from issuance of 11% senior secured notes, with a maturity date of 15 July 2018. This liability has been converted to Australian dollars using an exchange rate of 1.297 (2014: 1.061). All principle in US dollars is payable at maturity date with interest to be paid semi-annually, in arrears on 15 January and 15 July of every year. On or after 15 July 2015 the Group may redeem some or all of the notes at a premium that will decrease over time as set out below:

15 July 2015 to 14 July 2016 108%

15 July 2016 to 14 July 2017 104%

15 July 2017 to 14 July 2018 102%

15 July 2018 100%

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, see Note 10(e).

During the year, a further US\$25 million (A\$32.440m) of additional notes were raised under the provisions of its existing Senior Secured Notes. The additional notes will be issued at a premium to par of 8% and have the same terms and conditions as the existing notes. The effective interest rate is 7.5%.

(b) The External MIS grower liabilities are designated at fair value through profit and loss. The basis of determining the fair value of the liability, Level 3 within the fair value hierarchy, is consistent with the method adopted by the Group to value its biological assets (see note 11) and factors in credit risk and the security provided by the underlying trees.

NOTE 21: UNEARNED INCOME (NON CURRENT)

Unearned income

2015 \$'000	2014 \$'000
<u>4,080</u>	<u>3,356</u>

Unearned income represents lease & management fees received in advance of services being provided. The non-current classification represents that portion of unearned income where the services are to be provided later than 12 months after balance date.

NOTE 22: ISSUED CAPITAL

326,983,445 fully paid ordinary shares (30 June 2014: 324,157,408)

2015 \$'000	2014 \$'000
<u>188,948</u>	<u>184,964</u>

(a) Ordinary shares

At the beginning of the period

Shares issued during the year

8 November 2013 (2,535,579 shares issued under its DRP for \$0.76 per share to raise \$1,932,111)

27 May 2014 (42,000,000 shares issued from the capital raising at \$1.60 per share to raise \$67.200m)

29 September 2014 (1,110,000 shares were exercised at \$1.28 per share to raise \$1,420,800)

10 November 2014 (1,716,037 shares were issued under its DRP at \$1.49 per share for \$2,563,759)

2015 No.	2014 No.
324,157,408	279,621,829
-	2,535,579
-	42,000,000
1,110,000	-
1,716,037	-
<u>326,983,445</u>	<u>324,157,408</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 22: ISSUED CAPITAL

A total of 2,534,300 (2014: 3,914,334) ordinary shares are reserved for employees under the share ownership plan.

Fully paid ordinary shares carry one vote per share and the rights to dividends. The shares have no par value.

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 prior financial year. The gearing ratios for the current period and past year end are as follows:

	2015 \$'000	2014 \$'000
Total borrowings	229,355	159,197
Less: Cash and cash equivalents	(72,674)	(88,581)
Net debt	156,681	70,616
Total equity	574,523	466,327
Total capital	731,204	536,943
Gearing ratio	21.43%	13.15%

NOTE 23: RESERVES

Asset Revaluation Reserve

The assets revaluation reserve records revaluations of non-current assets.

	2015 \$'000	2014 \$'000
Opening balance	8,442	8,106
Net gain on uplift in land of an investments accounted for under the equity method entity	75	336
Revaluation of land and buildings (net of tax)	259	-
Closing balance	8,776	8,442

Foreign Currency Translation Reserve

The foreign currency reserve records revaluations of foreign operations.

	2015 \$'000	2014 \$'000
Opening balance	(24)	-
Net exchange differences on translation of the foreign subsidiary	295	(24)
Closing balance	271	(24)

Option/Warrant Reserve

The option reserve records amounts received on issue of options and performance rights in the company.

	2015 \$'000	2014 \$'000
Opening balance	9,083	9,005
Share based payments	320	78
Closing balance	9,403	9,083

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 24: CASH FLOW INFORMATION

(i) Reconciliation of Cash

Cash balance as per cash flow statement

2015 \$'000	2014 \$'000
72,674	88,581

(ii) Reconciliation of Operating Profits After Income Tax to the Net Cash Flow Provided by Operating Activities

Operating profit /(loss) after income tax	113,021	82,490
Add / (less) non-cash items:		
Revaluation of biological assets – External MIS growers	(34,226)	1,230
Re-measurement of External MIS grower liabilities	34,226	(1,230)
Depreciation and amortisation	8,575	6,635
Share of net profits from investments accounted for under the equity method	(5,158)	(5,879)
Tax adjustment taken direct to equity / ARR	(111)	826
Unearned FX loss relating to investments/borrowings	35,357	(4,967)
Share based payments	320	79
Net cash provided by operating activities before change in assets and liabilities	152,004	79,184
Changes in operating assets and liabilities:		
Provision for taxation increase / (decrease)	(5,629)	10,068
Provision for impairments increase / (decrease)	808	(235)
Provision for deferred taxation increase / (decrease)	53,479	25,276
Future tax benefit (increase) / decrease	(9,447)	(1,892)
(Profit) / loss on sale of fixed assets	27	(13)
(Profit) / loss on sale of investments	175	(994)
(Increase) / decrease in trade debtors	(944)	(8,615)
(Increase) / decrease in prepayments	1,433	(1,690)
(Increase) / decrease in accrued income receivable	(26,772)	(12,453)
(Increase) / decrease in grower loans	(11,137)	(27,958)
(Increase) / decrease in inventories	(17,464)	(2,258)
(Increase) / decrease in sandalwood tree market value	(135,903)	(63,301)
(Increase) / decrease in gain on settlement of trade debtor	11	(1,320)
Increase / (decrease) in trade creditors, provisions & other payables	16,060	4,637
Increase / (decrease) in unearned income	7,870	8,804
Net cash flow from operating activities	24,571	7,240

(iii) Non Cash Operating and Investing Activities

Dividend Reinvestment Plan ("DRP")

1,716,037 shares (2014: 2,535,579 shares) were issued to those shareholders who participated in the Group's DRP. This equated to a reduced dividend payout of \$2.560m (2014: \$1.930m).

Provision of Loans to Growers

During the year Arwon Finance provided loans to growers for settlement of establishment fees payable. This transaction was on a non cash basis and amounted to \$29.414m (2014: \$39.420m) which has been eliminated from receipts from operations.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 24: CASH FLOW INFORMATION

(iv) Loan Facilities

At balance date the following financing facilities had been negotiated and were available:

Total facilities

- 11% Senior secured notes

229,346

159,172

Facilities used at balance date

- 11% Senior secured notes

229,346

159,172

NOTE 25: CAPITAL AND LEASING COMMITMENTS

Operating Leases

Plantation land lease (non-cancellable) (a)

Due not later than one year

4,379

4,117

Later than one year but not later than two years

4,446

4,117

Later than two years but not later than five years

13,185

12,295

Later than five years

20,855

21,529

42,865

42,058

(a) These commitments represent payments due for leased land under a non-cancellable operating lease. The lease have terms of 15 to 16 years. The land can be used to plant and tend any agricultural crop which will not have a detrimental effect on the value or future use of the leased area. The annual rent is reviewed annually. The payments above reflect any projected increase.

Finance Leases

Payable:

Not later than one year

9

18

Later than one year but not later than five years

-

9

Later than five years

-

-

Minimum lease payments

9

27

Less: future finance charges

-

(2)

Present value of minimum lease payments

9

25

Plantation Land Restoration Commitment

Payable:

Not later than one year

24

24

Later than one year but not later than five years

94

94

Later than five years

77

10

195

128

Committed Lease Payments Receivable

Receivable:

Not later than one year

151

158

Later than one year but not later than five years

329

461

Later than five years

2

22

482

641

The above committed lease payments receivable represent the minimum future lease payments receivable by the Group in respect to non-cancellable lease agreements over timber lots entered into by investors in past projects.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 25: CAPITAL AND LEASING COMMITMENTS

Capital Expenditure Commitments

Capital expenditure commitments contracted for:

	2015 \$'000	2014 \$'000
- Land	-	6,386

NOTE 26: DIVIDENDS

Distributions Paid

Final fully franked dividend of 3 cents per share paid on 10 November 2014

	2015 \$'000	2014 \$'000
	9,758	8,389

(a) Balance of franking account at year end adjusted for franking credits arising from the payment of the provision for income tax

	2015 \$'000	2014 \$'000
	25,139	22,707

1,716,037 shares (2014: 2,535,579 shares) were issued to those shareholders who participated in the Group's dividend reinvestment plan. This equated to a reduced dividend payout of \$2.560m (2014: \$1.930m).

NOTE 27: EARNINGS PER SHARE

Earnings used in calculating basic and diluted earnings per share

	2015 \$'000	2014 \$'000
	113,021	82,490

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent (after adjusting for warrants) by the sum of the weighted average number of ordinary shares outstanding during the year and the weighted average number of ordinary shares that would have been issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Weighted average number of ordinary shares for basic EPS	326,094	285,160
Effects of dilution from warrants	13,346	-
Weighted average number of ordinary shares adjusted for the tax effect of dilution	339,440	285,160

Since reporting date the Group has issued 12,676,405 ordinary shares as part of the acquisition of Santalis and ViroXis as referred to in Note 34.

55,500,000 warrants in 2014 were not dilutive and have not been included in the dilutive number of ordinary shares.

The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year. 2,128,578 performance rights are contingently issuable and are not included in the diluted EPS.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 28: AUDITOR'S REMUNERATION

Amounts received or due and receivable by auditors (Ernst & Young) of
TFS Properties Ltd and MIS projects:

- auditing or reviewing the financial report	275,694	-
- other services	256,932	-
	<u>532,626</u>	<u>-</u>

Amounts received or due and receivable by auditors (Bentleys) of TFS
Properties Ltd and MIS projects:

- auditing or reviewing the financial report	-	412,238
- other services	-	-
	<u>-</u>	<u>412,238</u>

NOTE 29: CONTROLLED ENTITIES

	Country of Incorporation / Place of Business	2015 % owned	2014 % owned
Parent entity:			
TFS Corporation Ltd	Australia	-	-
Subsidiaries of parent:			
Tropical Forestry Services Ltd	Australia	100	100
TFS Leasing Pty Ltd	Australia	100	100
Arwon Finance Pty Ltd	Australia	100	100
TFS Properties Ltd	Australia	100	100
Sandalwood International Pty Ltd	Australia	100	100
Fieldpark Pty Ltd	Australia	100	100
Mt Romance Holdings Pty Ltd	Australia	100	100
Mt Romance Australia Pty Ltd	Australia	100	100
Australian Sandalwood Oil Co. Pty Ltd	Australia	100	100
Tribal Dreaming Pty Ltd	Australia	100	100
Beyond Carbon Pty Ltd (trustee company only)	Australia	100	100
Gulf Natural Supply Co.	UAE	100	100
TFS Sandalwood Project 2004 Premium ^(a)	Australia	14 ^(b)	14
TFS Sandalwood Project 2005 ^(a)	Australia	14 ^(b)	14
TFS Sandalwood Project 2006 ^(a)	Australia	17 ^(b)	17
TFS Sandalwood Project 2007 ^(a)	Australia	33 ^(b)	33

(a) Control through contractual arrangement combined with a significant exposure to variable returns. Refer note 1(y).

(b) In addition to these direct interests, the Group has an indirect interest in TFS 2004 Premium, TFS 2005, TFS 2006 and TFS 2007 of 36%, 22%, 24% and 13% respectively.

Financial information, based on the Group's accounting policies, of the consolidated Managed Investment Schemes is as follows:

	TFS Sandalwood Project 2004 Premium \$'000	TFS Sandalwood Project 2005 \$'000	TFS Sandalwood Project 2006 \$'000	TFS Sandalwood Project 2007 \$'000
Biological assets	11,538	14,902	39,734	53,864
Grower liabilities	11,538	14,902	39,734	53,864
Net assets	-	-	-	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 29: CONTROLLED ENTITIES

Summarised statement of financial position - 30 June 2014

	TFS Sandalwood Project 2004 Premium \$'000	TFS Sandalwood Project 2005 \$'000	TFS Sandalwood Project 2006 \$'000	TFS Sandalwood Project 2007 \$'000
Biological assets	9,194	9,741	33,417	33,783
Grower liabilities	9,194	9,741	33,417	33,783
Net assets	-	-	-	-

Summarised statement of profit or loss for the year ended - 30 June 2015

	TFS Sandalwood Project 2004 Premium \$'000	TFS Sandalwood Project 2005 \$'000	TFS Sandalwood Project 2006 \$'000	TFS Sandalwood Project 2007 \$'000
Revaluation of Biological assets	2,294	5,270	7,422	19,240
Re-measurement of Grower liabilities	2,294	5,270	7,422	19,240
Net profit for the year	-	-	-	-

Summarised statement of profit or loss for the year ended 30 June 2014

	TFS Sandalwood Project 2004 Premium \$'000	TFS Sandalwood Project 2005 \$'000	TFS Sandalwood Project 2006 \$'000	TFS Sandalwood Project 2007 \$'000
Revaluation of Biological assets	(813)	(3,140)	1,842	881
Re-measurement of Grower liabilities	(813)	(3,140)	1,842	881
Net profit for the year	-	-	-	-

There is a deed of cross guarantee in place between the following entities of the Group: TFS Corporation Ltd; Tropical Forestry Services Ltd; and Mt Romance Holdings Pty Ltd.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the entities party to the deed of cross guarantee are:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 29: CONTROLLED ENTITIES

	2015 \$'000	2014 \$'000
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Revenue	213,250	139,021
Other income	140,194	63,313
Direct plantation and other operating expenses	(27,760)	(24,607)
Raw materials and consumables used	(11,959)	(12,911)
Salaries and employees benefits expense	(24,483)	(20,314)
Sales and marketing expenses	(6,727)	(6,068)
Corporate and other administration expenses	(14,296)	(10,759)
Depreciation and amortisation expenses	(8,546)	(6,204)
Finance costs	(44,641)	(19,784)
Unrealised foreign exchange gain / (loss)	(38,732)	5,910
Share of net profits of investments accounted for under the equity method	4,984	5,737
Profit before income tax expense	181,284	113,334
Income tax expense	(43,422)	(35,410)
Profit for the period	137,862	77,924
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit and loss in subsequent periods:</i>		
Net gain on uplift in land of an investments accounted for under the equity method	75	336
Revaluation of land and buildings net of tax	259	-
Total comprehensive income for the period	138,196	78,260

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 29: CONTROLLED ENTITIES

	2015 \$'000	2014 \$'000
STATEMENT OF FINANCIAL POSITION		
CURRENT ASSETS		
Cash and cash equivalents	62,785	76,229
Trade and other receivables	60,735	63,495
Biological assets	9,414	-
Inventories	10,609	7,715
TOTAL CURRENT ASSETS	143,543	147,536
NON CURRENT ASSETS		
Trade and other receivables	172,131	143,702
Other financial assets	7,607	7,731
Property, plant and equipment	66,996	56,077
Deferred tax assets	22,250	13,885
Biological assets	486,972	348,105
Intangible assets and goodwill	32,487	23,588
Investments accounted for using equity method	13,333	7,353
Other assets	8,479	8,063
TOTAL NON CURRENT ASSETS	810,255	608,407
TOTAL ASSETS	953,798	755,943
CURRENT LIABILITIES		
Trade and other payables	34,105	62,983
Financial liabilities	9	16
Income tax payable	7,772	13,401
Provisions	2,606	2,186
Unearned income	26,413	21,891
TOTAL CURRENT LIABILITIES	70,905	100,477
NON CURRENT LIABILITIES		
Provisions	47	204
Financial liabilities	229,346	159,181
Deferred tax liabilities	119,861	71,743
Unearned income	849	250
TOTAL NON CURRENT LIABILITIES	350,103	231,378
TOTAL LIABILITIES	421,008	331,855
NET ASSETS	532,790	424,088
EQUITY		
Issued capital	188,947	184,964
Asset revaluation reserve	1,153	819
Option/Warrant reserve	9,404	9,083
Retained earnings	333,286	229,222
TOTAL EQUITY	532,790	424,088

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 30: 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.

Types of Products and Services by Segment

(i) *Plantation Management*

The plantation management segment is firstly responsible for the promotion and sales of Indian Sandalwood lots to investors, also called growers.

Secondly this segment is responsible for the establishment, maintenance and harvesting of Indian Sandalwood plantations on behalf of the growers and group owned plantations.

Thirdly this segment is responsible for end market research and the establishment of end market agreements.

Significant plant & equipment, including tractors, motor vehicle and irrigation infrastructure form the basis for the operating assets in this segment.

(ii) *Finance*

The segment is responsible for providing finance to growers to purchase Sandalwood lots. This finance can either be via in house or by arranging external finance.

(iii) *Sandalwood Products*

This segment, which includes the 100% owned subsidiary Mt Romance Holdings Pty Ltd is responsible for the manufacture of Sandalwood Oil and products for resale both domestic and internationally.

(iv) *Agriculture*

This segment is responsible for all the farming activities of the Group, other than forestry related activities.

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 30: OPERATING SEGMENTS

Inter-Segment Transactions

An internally determined transfer price is set for all inter-entity sales. This price is reviewed on an ongoing basis and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated to the plantation management division, unless it can be assigned to a specific segment other than plantation management. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received. This inter-segment loans are revolving facility with no fixed terms, interests free and repayable in full when the borrower is in a financial position to effect this.

Segment Assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have been allocated to an operating segment.

Segment Liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities relating to the Group as a whole are allocated to the plantation management segment unless it can be assigned to a specific segment other than plantation management. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated Items

Currently the Group has no unallocated items other than the interest in investments accounted for under the equity method and the External MIS grower interest in biological assets and External MIS grower liabilities.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 30: OPERATING SEGMENTS

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. All material operations are conducted in Australia.

Operating segments	Plantation management		Finance		Sandalwood products		Agriculture		Group	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Revenue										
Establishment fees and land sales	79,647	80,577	-	-	-	-	-	-	79,647	80,577
Land sales	7,045	7,350	-	-	-	-	-	-	7,045	7,350
Lease and management fees	23,188	17,958	-	-	-	-	-	-	23,188	17,958
Product sales	-	-	-	-	27,662	20,450	-	-	27,662	20,450
Sales of agriculture produce	-	-	-	-	-	-	-	11	-	11
Interest – external	1,144	1,117	2,337	2,164	-	-	-	-	3,481	3,282
Interest – inter segment	2,509	53	-	-	-	-	-	-	2,509	53
Other – external	12,650	4,422	234	1,086	585	11	-	-	13,469	5,519
Other – internal	54	1,259	-	-	398	679	-	-	452	1,979
Accrued income recognition	26,913	12,453	-	-	-	-	-	-	26,913	12,453
Gain on settlement of trade debtor	-	1,320	-	-	-	-	-	-	-	1,320
Gain on revaluation of plantation – TFS interest	136,632	63,301	-	-	-	-	-	-	136,632	63,301
Total segment revenue	289,782	188,581	2,571	3,250	28,645	21,140	-	11	320,998	214,212
<i>Reconciliation of segment revenue to group revenue</i>										
Less other income									139,930	64,634
Inter segment revenue									(2,961)	(1,991)
Total group revenue from ordinary activities									178,107	147,587

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 30: OPERATING SEGMENTS

Operating segments

	Plantation management		Finance		Sandalwood products		Agriculture		Group	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000

Result

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

	178,811	136,773	1,820	1,141	9,402	4,188	-	11	190,033	142,113
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Reconciliation of segment EBITDA to group EBITDA

Inter segment revenue

(2,961)	(1,991)
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Total group EBITDA

187,072	140,122
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Segment result before income tax

146,949	106,052	(630)	1,193	8,746	3,515	-	11	155,065	110,771
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Reconciliation of segment result to group net profit before tax

Inter segment revenue

(2,961)	(1,991)
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Amounts not included in segment results but reviewed by the Board

-	-
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Share of net profits of investments accounted for under the equity method

5,158	5,879
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Net profit before tax from continued operations

157,262	114,659
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 30: OPERATING SEGMENTS

Operating segments

	Plantation management		Finance		Sandalwood products		Agriculture		Group	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Segment Assets										
Segment Assets	1,015,565	799,662	63,123	53,560	46,298	33,773	-	-	1,124,986	886,995
Segment increases for the period:										
Capital expenditure	16,881	12,229	-	-	-	-	-	-	16,881	12,229
Acquisitions	8,111	7,052	-	-	1,394	712	-	-	9,505	7,764
	24,992	19,281	-	-	1,394	712	-	-	26,386	19,993

Reconciliation of segment assets to group assets

External MIS grower interest in biological assets									120,038	86,135
Inter segment receivables eliminated on consolidation									(71,689)	(55,479)
Total group assets from continuing operations									1,173,335	917,651

Segment Liabilities

Segment Liabilities	480,108	363,737	49,485	39,272	11,786	8,575	-	-	541,379	411,584
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Reconciliation of segment liabilities to group liabilities

External MIS grower liabilities									120,038	86,135
Inter segment payables eliminated on consolidation									(62,605)	(46,395)
Total group liabilities from continuing operations									598,812	451,324

The Group's operations were all conducted in Australia with no material assets located outside of Australia.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 31: FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries, notes, and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2015 \$'000	2014 \$'000
Financial assets:			
Cash and cash equivalents	24(i)	72,674	88,581
Loans and receivables			
- Cash deposit: First loss, bank guarantee, escrow and custodian account	7,9	9,930	10,343
Loans and receivables		136,812	127,626
Total financial assets		219,416	226,550
Financial liabilities			
Financial liabilities at amortised cost			
- Trade and other payables		55,098	63,474
- External MIS grower liability at fair value through profit and loss		120,038	86,135
- Borrowings	20	229,346	159,172
Total financial liabilities		404,482	308,781

(i) Treasury Risk Management

A treasury committee has been established to regularly review the treasury risk management policies and to report to the CEO, CFO and the Board. The overall treasury risk management strategy is to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

(ii) Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, foreign currency risk, credit risk, price risk and operational risk.

Interest Rate Risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The Group regularly monitors its risk on interest rate exposure and considered interest rate hedging strategies if deemed necessary. The interest rate applicable to the 11% Senior Secured Notes is fixed over the full term of the notes.

At the balance sheet date the following financial assets were exposed to Australian variable interest rates. Financial liabilities are interest free or have fixed interest terms:

	2015 \$'000	2014 \$'000
Cash	\$69,644	\$82,108
Cash deposits	\$5,207	\$4,925

Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- review alternative funding to diversify liquidity options; and
- maintaining a reputable credit profile.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 31: FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the entity's functional currency.

The Group is primarily exposed to the fluctuations in the US dollar in relation to the US\$175 million Senior Secured Notes, maturing 2018 and semi-annual US dollar interest payable. The Group is mainly exposed to US dollars.

The Group aims to reduce and manage the foreign exchange risk on the US\$175 million Senior Secured Notes and US dollar interest through natural hedges by generating US dollar denominated income and holding assets impacted by the US dollar. The Group also considers on a regular basis the practical and economic viability of foreign currency hedging instruments to hedge the risk of future foreign currency fluctuation.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations. The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets are the carrying amount of those assets as indicated in the consolidated statement of financial position.

The Group aims to minimise concentrations of credit risk in relation to trade receivables and loans to growers by holding security of the underlying sandalwood lots.

In event of any default by an investor in a plantation investment, TFS will seek to recover the outstanding amount by undertaking normal debt recovery procedures, but, if necessary, take possession of part or all of the underlying plantation and either retain ownership or seek to on-sell.

Credit risk in trade receivables is managed in the following ways:

- a risk assessment process is completed before granting loans to customers
- timber lots are generally not allocated to an investor until the minimum initial payment is received;
- payment terms are generally 30 days, unless 12 month payments terms are granted, in which case a signed payment plan commitment is obtained from the customer, and
- payment terms for certain establishment fees can extend beyond 30 days; and
- if any defaults are recognised the company can claim on its security by reclaiming the underlying sandalwood lot.

The credit risk for counterparties included in the trade and other receivables at 30 June 2015 is detailed below:

	2015 \$'000	2014 \$'000
Trade and Other Receivables		
Counterparties not rated	136,812	127,626
Cash and Cash Equivalents		
AA rated counterparties	72,674	88,581
Loans and Receivables		
AA rated counterparties	4,723	5,418
Counterparties not rated	5,207	4,925
	9,930	10,343

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 31: FINANCIAL RISK MANAGEMENT

Price Risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities. The Group is exposed to commodity price risk in relation to its biological assets and operations carried on by its sandalwood products division. The External MIS Grower liabilities of \$120.038m (2014 \$86.135m) are exposed to price risk. This however is offset by the exposure on the External MIS Grower interest in the biological assets with a carrying value of \$120.038m (2014 \$86.135m). The Group does not anticipate that the sandalwood album or spicatum price will decline significantly in the foreseeable future.

(b) Financial instruments

(i) Forward Exchange Contract

The Group has no open forward exchange contracts at balance date. These contracts (if open) commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates. Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimised.

(ii) Financial Instrument Composition and Maturity Analysis

The tables below reflect the undiscounted contractual settlement terms for financial liabilities. As such the amounts may not reconcile to the balance sheet.

2015	Financial Instruments	Type of instrument	Maturing in			Total	Weighted average coupon rate
			1 year or less	Over 1 to 5 years	More than 5 years		
			\$'000	\$'000	\$'000	\$'000	%
	Secured Notes	Fixed interest	-	302,859	-	302,859	11.00%
	Trade creditors	Interest free	19,470	-	-	19,470	N/A
	Trade creditors - sundry	Interest free	35,619	-	-	35,619	N/A
	HP liabilities	Fixed interest	9	-	-	9	9.55%
	MIS grower liabilities*	Interest free	-	-	120,038	120,038	N/A
	Total financial liabilities		55,098	302,859	120,038	477,995	

* MIS grower liabilities allocation based on predicted harvest date.

2014	Financial Instruments	Type of instrument	Maturing in			Total	Weighted average coupon rate
			1 year or less	Over 1 to 5 years	More than 5 years		
			\$'000	\$'000	\$'000	\$'000	%
	Secured Notes	Fixed interest	-	230,519	-	230,519	11.00%
	Trade creditors	Interest free	48,323	-	-	48,323	N/A
	Trade creditors - sundry	Interest free	15,126	-	-	15,126	N/A
	HP liabilities	Fixed interest	16	9	-	25	9.55%
	MIS grower liabilities*	Interest free	-	-	86,135	86,135	N/A
	Total financial liabilities		63,465	230,528	86,135	380,127	

* MIS grower liabilities allocation based on predicted harvest date.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 31: FINANCIAL RISK MANAGEMENT

(iii) Net fair values

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

- Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short term maturity.
- Trade receivables and payables: The carrying amount approximates fair values.
- Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.
- Long-term loans receivable: The fair values of long-term loans receivable are estimated using discounted cash flow analysis, based on market rates for similar types of borrowing arrangements.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

	2015		2014	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Financial assets:				
Cash deposits:				
First loss, bank guarantee, escrow and custodian account	9,930	9,930	10,343	10,343
Loans and receivables ⁽ⁱ⁾	136,812	134,684	127,626	127,626
	<u>146,742</u>	<u>144,614</u>	<u>137,969</u>	<u>137,969</u>
Financial liabilities:				
Bills of exchange and secured notes ⁽ⁱ⁾	229,346	247,077	159,172	171,478
External MIS grower liabilities ⁽ⁱⁱ⁾	120,038	120,038	86,135	86,135
Trade and other payables	55,098	55,098	63,474	63,474
	<u>404,482</u>	<u>422,213</u>	<u>308,781</u>	<u>321,087</u>

The methods used to determine fair value resulted in the same value to the carrying amounts at year end.

⁽ⁱ⁾ Fair value of Loans and receivables and the Secured notes (Level 2 in the fair value hierarchy) is established by discounting cash flows using market rates of interest. The interest rates used in the current year were 7.7% for the Secured notes and 4.98% for the Loans and receivables.

⁽ⁱⁱⁱ⁾ Level 3 fair value hierarchy - see Note 20.

(iv) Sensitivity Analysis – Interest rate risk, Foreign currency risk, Price risk, Heartwood yield risk

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk, price risk and heartwood yield risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change to these risks.

Interest Rate Sensitivity

At 30 June 2015, the effect on profit and equity as a result of changes in the after tax interest rate, with all other variables remaining constant would be as follows:

	2015 \$'000	2014 \$'000
Change in profit and equity		
- increase in interest rate by 1%	578	692
- decrease in interest rate by 1%	(578)	(692)

Excluded from this sensitivity calculation is the effect of interest rate changes on the 11% Senior Secured Notes – interest rate on the notes is fixed.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 31: FINANCIAL RISK MANAGEMENT

Foreign Currency Risk Sensitivity Analysis

At 30 June 2015, the effect on profit and equity as a result of net changes in the after tax value of the Australian dollar to the US Dollar, with all other variables remaining constant would be as follows:

	2015 \$'000	2014 \$'000
Change in profit and equity		
- improvement in AUD to USD by 10%	(26,666)	(16,950)
- decline in AUD to USD by 10%	26,666	16,950

This sensitivity analysis reflects the net translation movement on all of the Group's US dollar denominated financial assets and liabilities, as well as TFS's interest in the biological assets with a carrying value of \$504.536m (30 June 2014: \$348.105m).

Price Risk Sensitivity Analysis – TFS interest in biological assets

At 30 June 2015, the effect on profit and equity as a result of changes in the after tax price risk, with all other variables remaining constant would be as follows:

	2015 \$'000	2014 \$'000
Change in profit and equity		
- increase in sandalwood oil price by \$100/kg	14,874	10,299
- decrease in sandalwood oil price by \$100/kg	(14,874)	(10,299)

Heartwood Yield Risk Sensitivity Analysis – TFS interest in biological assets

At 30 June 2015, the effect on profit and equity as a result of changes in the after tax heartwood yield risk, with all other variables remaining constant would be as follows:

	2015 \$'000	2014 \$'000
Change in profit and equity		
- increase in heartwood oil yield by 10%	39,273	25,190
- decrease in heartwood oil yield by 10%	(39,273)	(25,190)

Discount Rate Risk Sensitivity Analysis – TFS interest in biological assets

At 30 June 2015, the effect on profit and equity as a result of changes in the after tax discount rate risk, with all other variables remaining constant would be as follows:

	2015 \$'000	2014 \$'000
Change in profit and equity		
- increase in discount rate by 2%	(63,839)	(45,523)
- decrease in discount rate by 2%	80,360	58,024

NOTE 32: CONTRACTUAL COMMITMENTS

On 28 December 2011 the Group agreed to a product development and supply agreement with a US company called Santalis Pharmaceutical Inc. As consideration for entering into those agreements the Group was issued shares in Santalis to equal a 50% ownership stake. Under the product development agreement the Group has agreed to underwrite funding for the amount of US\$1.5m per annum for five years for Santalis' product development costs. The amount of funding provided by the Group is reimbursable from future revenues to be received by Santalis. The Group also has the right to withdraw from its underwriting obligation on an annual basis for any reason but as a consequence would hold a reduced interest in the shares of Santalis. As at 30 June 2015 the Group has committed to a fourth year of funding Santalis' product development costs.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 33: CONTINGENT LIABILITIES

(i) A controlled entity has a replanting commitment in relation to sandalwood projects to ensure a tree mortality rate of no more than 25% at the end of the first year of the project. Possible associated costs associated with this replanting have not been provided for. These possible future costs are not considered to be material.

(ii) 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 the amount cash available in the First Loss Account (see Note 9). The portfolio of loans consists of existing loans sold to the CBA in 2008 and direct grower funding for the TFS2008 and TFS2009 projects. Once indemnified the Group takes the loan back onto its balance sheet with the established sandalwood trees acting as security over the receivable.

(iii) Included in the sales to high net worth investors and certain institutional investors during June 2014 are put options whereby the investor can elect to sell the trees back to the Group at a predetermined price. These put options are to be exercised by 30 June 2016 (institutional) and 30 September 2018 (HNW investors). If exercised the Group would be required to pay the consideration in July 2016 (institutional) and in November 2018 and November 2019 (high net worth investors). If all the options were exercised the Group would be required to acquire the plantations from the institutional investor for \$30.480m and from the high net worth investors for \$51.320m. 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.

NOTE 34: EVENTS AFTER BALANCE DATE

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2015 of 3.0 cents per share. This equates to a total dividend of \$10.190m

On 18 June 2015, TFS Corporation Ltd entered into a binding agreement to acquire the remaining 50% of the shares of Santalis Pharmaceutical and 100% of the shares of ViroXis Corporation for a minimum consideration of US\$23.4m. Completion was subject to a number of administrative conditions which have now been satisfied. The acquisition was completed on 4 August 2015.

On 4 August 2015, the company announced the completion of the transactions to acquire ViroXis Corporation and Santalis Pharmaceuticals. The total maximum consideration payable by the Group consists of fixed minimum payments of US\$23.4 million and contingent payments over time of up to US\$221.500 million. The contingent consideration only becomes payable when the companies achieve significant operating and commercial milestones (from the launch or approval of new pharmaceutical products containing Indian sandalwood oil) and significant operating cash inflows.

The acquisition has been completed via a share issue of 12.68m ordinary shares in TFS Corporation Ltd (ASX:TFC), with the remaining 2.7m ordinary shares to be issued between 10 September 2015 and 31 July 2016. Of the 12.68m ordinary shares issued, 9.5m will be subject to escrow provisions, ranging from 6 to 30 months from the issue date.

The acquisition of Santalis is consistent with our strategy of 'Soil to Oil to Shelf'.

Due to the proximity of the transaction to the reporting date, the initial accounting for the business combination is incomplete at the time of the Group's financial statements were authorised for issue. Accordingly, details of the financial effect of the business combination have not been disclosed.

Acquisition accounting will require the existing 50% interest held by TFS in Santalis to be remeasured to fair value with the impact of the re-measurement recognised in profit or loss.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 35: SHARE BASED PAYMENTS

The following share based payment arrangements existed at 30 June 2015:

On 21 February 2008 the company entered into an agreement with Lush Ltd ("Lush") for the future supply by the Group of sandalwood oil to Lush. In conjunction with entering into the agreement, the company issued to Lush 1,000,000 options to purchase ordinary shares in TFS Corporation Ltd. The options are exercisable any time within 3 years of first commercial sandalwood delivery. The first commercial sandalwood delivery occurred by the end of 2014. The exercise price for each warrant is \$1.80.

	2015		2014	
	No. of options	Weighted average exercise price \$	No. of options	Weighted average exercise price \$
Outstanding at the start of the year	1,000,000	1.80	1,000,000	1.80
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	1,000,000	1.80	1,000,000	1.80
Exercisable at year end	-	-	-	-

The weighted average fair value of the options outstanding at grant date was \$0.478. This price was calculated by using Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$1.80
Anticipated expiry date	31 December 2017
Underlying share price at date of issue	\$1.06
Share price volatility	48%
Risk free interest rate	6.61%

As part of securing the Note raise (refer to Note 20a) the Group agreed to issue 55.5m warrants (each warrant exercisable for one share). The issue of the warrants was subject to shareholders' approval, which was granted on 1 August 2011. The exercise price for each option is \$1.28.

	2015		2014	
	No. of options	Weighted average exercise price \$	No. of options	Weighted average exercise price \$
Outstanding at the start of the year	55,500,000	1.28	55,500,000	1.28
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	(1,110,000)	1.28	-	-
Expired	-	-	-	-
Outstanding at year end	54,390,000	1.28	55,500,000	1.28
Exercisable at year end	-	-	-	-

The Group operated two types of ownership-based schemes for Executives and employees. The new TFS LTIP, which grants performance rights, was approved by shareholders in 2014. This has replaced the previous LTIP (Share Acquisition Plan), whereby shares were issued to employees financed by way of non-recourse loans.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 35: SHARE BASED PAYMENTS

TFS LTIP

TSR Performance hurdle - Absolute TSR –performance rights subject to the Company’s absolute TSR growth performance over the period 1 July 2014 to 30 June 2017 (Tranche 1) and 1 July 2014 to 30 June 2018 (Tranche 2).

EPS Performance hurdle - Absolute cash EPS –performance rights will be subject to the Company’s absolute cash EPS growth performance over the period 1 July 2014 to 30 June 2018.

The percentage of performance rights subject to the TSR hurdle and EPS hurdle that vest, if any, will be determined by the Board with reference to annual TSR growth and EPS achieved over the performance period.

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.08%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

During the year, there were 2,128,578 performance rights on issue. This price was calculated using the Black Scholes pricing model applying the following inputs:

Weighted average exercise price	\$0
Expiry date	27 January 2022
Underlying share price at date of issue	\$1.50
Share price volatility	44.69%
Dividend yield	1.8%

Share acquisition plan

To ensure that the Group has appropriate mechanisms to continue to attract and retain the services of Directors and employees of a high caliber, the Group established the Share acquisition plan. The Group obtained shareholder approval at the AGM for the Plan in November 2009 and again in November 2012, and any shares issued under the Plan within 3 years of approval of the Plan.

The following performance rights were issued under the plan :-

	2015		2014	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	3,914,334	0.77	5,855,651	0.77
Issued during the year				
- Key management personnel	-	-	-	-
- Other eligible employees	-	-	-	-
Shares previously held by employees who have resigned	(305,000)	-	(354,550)	0.65
Shares for which loan has been repaid	-	-	(361,900)	0.59
Shares forfeited by employees who have resigned	-	-	(567,700)	1.03
Options exercised by employees	(1,075,034)	0.82	(657,167)	0.84
Closing balance	2,534,300	0.74	3,914,334	0.77

All the shares included in the closing balance have vested and are available to holders to be dealt with in accordance with the rules of the TFS LTIP. These shares may not be transferred or otherwise dealt with until any loan in respect of the TFS LTIP share is repaid.

All shares issued under the plan with non-recourse loans are considered, for accounting purposes, to be options.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 35: SHARE BASED PAYMENTS

The following share-based payment arrangements were in existence during the current and prior reporting periods:

Option series	Number	Grant Date	Expiry date	Weighted average exercise price (\$)	Weighted average fair value at grant date (\$)
Share issue no. 1	962,000	9/3/2007	No fixed date	0.56	0.26
Share issue no. 2	392,100	6/6/2008	No fixed date	1.11	0.60
Share issue no. 3	-	6/6/2008	No fixed date	1.15	0.59
Share issue no. 4	596,600	27/2/2009	No fixed date	0.72	0.36
Share issue no. 5	363,800	2/2/2010	No fixed date	1.02	0.45
Share issue no. 6	219,800	10/5/2013	No fixed date	0.52	0.21
	<u>2,534,300</u>				

NOTE 36: KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below.

	2015 \$'000	2014 \$'000
Short-term employee benefits	2,600,254	1,950,117
Post-employment benefits	199,374	111,390
Other long term benefits	117,423	11,766
Termination benefits	-	-
Share based payments	154,242	34,233
	<u>3,071,293</u>	<u>2,107,506</u>

NOTE 37: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions are no more favourable than those available to other parties unless otherwise stated. Transactions include all payments excluding reimbursements.

(a) Transaction Within the Wholly Owned Group

The ultimate parent entity in the wholly owned group is TFS Corporation Ltd.

Amounts receivable or payable between the parent and the wholly owned controlled entities are disclosed in Note 38 to the financial statements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 38: PARENT ENTITY DISCLOSURES

(a) Financial Position

Assets

Current assets	42,310	61,787
Non-current assets	433,934	329,491
	<u>476,244</u>	<u>391,278</u>

Liabilities

Current liabilities	20,128	21,594
Non-current liabilities	232,537	159,335
	<u>252,665</u>	<u>180,929</u>

Net assets

	<u>223,579</u>	<u>210,349</u>
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Equity

Issued capital	188,949	184,964
Asset revaluation reserve	409	336
Option reserve	9,404	9,084
Retained profits	24,817	15,965
	<u>223,579</u>	<u>210,349</u>

(b) Financial performance

Profit for the year	15,272	27,675
Other comprehensive income	75	336
Total comprehensive income	<u>15,347</u>	<u>28,011</u>

(c) Contingent Liabilities of the Parent Entity

At balance sheet date the Parent Entity had no contingent liabilities.

(d) Commitments for the Acquisition of Property, Plant and Equipment by the Parent Entity

At balance sheet date no such commitments existed for the Parent Entity

(e) Intercompany Loans to Controlled Entities

The loans to controlled entities are revolving facilities with no fixed term. Interest accrues at 11% per annum on loans provided after 31 May 2011. No interest accrues on loans provided pre 31 May 2011.

Intercompany Loans to Controlled Entities

Tropical Forestry Services Ltd – Pre 31 May 2011	42,374	42,374
Arwon Finance Pty Ltd – Pre 31 May 2011	10,152	10,152
Mt Romance Holdings Pty Ltd	(3,191)	7,105
Gulf Natural Supplies Co	9,940	(163)
Tropical Forestry Services Ltd – Post 31 May 2011	248,078	173,657
Arwon Finance Pty Ltd – Post 31 May 2011	39,321	28,975
TFS Properties Ltd – Post 31 May 2011	25,150	29,455
	<u>371,824</u>	<u>291,555</u>

NOTE 39: ECONOMIC DEPENDENCY

The Group is economically dependent on the successful development, growing and ultimately the harvesting of sandalwood trees which are both currently owned by the company as well as those managed on behalf of investors in various projects.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

NOTE 40: RESTATEMENT RELATING TO THE APPLICATION OF AASB 10 CONSOLIDATED FINANCIAL STATEMENTS (AASB 10)

The Group applied AASB 10 for the first time last year. AASB 10 requires a continuous assessment of control be performed. A review of the Group's interests in the Managed Investment Schemes for which the Company or one of its controlled entities is the Responsible Entity has identified that the following schemes are controlled by the Company:-

TFS Sandalwood Project 2004 Premium
TFS Sandalwood Project 2005
TFS Sandalwood Project 2006
TFS Sandalwood Project 2007

The assessment of control was performed based on the factors outlined in note 1 (y). As a significant interest in each of the schemes listed above was acquired in the financial year ended 2014 due to the acquisition of 354 hectare from six existing growers in July 2013, it has now been determined that control of these schemes was obtained in the prior year. Accordingly, the comparative information for the year ended 30 June 2014 has been restated to consolidate these entities.

The impact on the Group's assets and liabilities as at 30 June 2015 and 30 June 2014 is as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
Increase in biological assets	120,038	86,135
Increase in total assets	120,038	86,135
External MIS grower liabilities	120,038	86,135
Increase in total liabilities	120,038	86,135
Increase in net assets	-	-

The restatement had no impact on net profit or loss for the periods ended 30 June 2015 or 2014 nor did it have an impact on opening retained earnings at 1 July 2013 or EPS disclosures.

NOTE 41: COMPANY DETAILS

The registered office of the company is:

169 Broadway
Nedlands WA 6009

The principal places of business are:

Perth Office
169 Broadway
Nedlands WA 6009

Plantation
24 Konkerberry Drive
Kununurra WA 6743

Mt Romance
Lot 2 Down Road
ALBANY WA 6330

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3/143 Edward Street
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23 Providence Court
Katherine NT 0850

Independent auditor's report to the members of TFS Corporation Ltd

Report on the financial report

We have audited the accompanying financial report of TFS Corporation Ltd, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

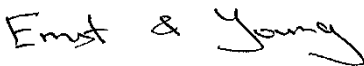
- a. the financial report of is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the remuneration report

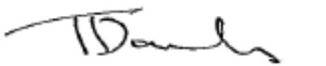
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of TFS Corporation Ltd for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



T G Dachs
Partner
Perth
30 August 2015