

TFS CORPORATION LTD
(ABN 97 092 200 854)

APPENDIX 4D
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

Current Reporting Period	Half year ended 31 December 2016				
Previous Reporting Period	Half year ended 31 December 2015				
	Percentage change			31 DEC 2016 \$'000	31 DEC 2015 \$'000
Revenue (Cash)					
Revenue from establishment fees and land sales	Down	4.3%	to	29,709	31,050
Revenue from recurring fees	Up	6.5%	to	10,505	9,862
Revenue from product sales	Up	30.0%	to	17,073	13,132
Interest revenue	Up	12.0%	to	2,747	2,453
Other revenue	Up	24.0%	to	5,165	4,165
Revenue (Non-Cash)					
Revenue from recognition of deferred fees	Up	28.4%	to	19,727	15,363
Fair value gain of biological assets - TFS interest	Down	19.6%	to	67,510	83,942
Other revenue	Up	338.2%	to	149	34
Total revenue from ordinary activities	Down	4.6%	to	152,585	160,001
EBITDA					
Cash EBITDA*	Down	11.8%	to	7,574	8,592
Non Cash EBITDA*	Down	34.5%	to	66,304	101,264
TOTAL EBITDA	Down	32.8%	to	73,878	109,856
Net profit after tax					
Net profit after tax (Cash *)	Down	113.3%	to	(16,050)	(7,525)
Net profit after tax (Non Cash *)	Down	40.8%	to	44,366	74,931
Net profit from ordinary activities after tax	Down	58.0%	to	28,316	67,406
				Ha	Ha
Plantation product sold					
Hectares of wholesale product sold	Down	12.2%	to	187.5	213.5
Hectares of SIO product sold	Up	96.0%	to	63.3	32.3
Total hectares sold	Up	2.0%	to	250.8	245.8
				31 DEC 2016 CENTS	31 DEC 2015 CENTS
Earnings Per Share					
Basic EPS (Based on net profit after tax)	Down	63.4%	to	7.28	19.87
Diluted EPS (Based on net profit after tax)	Down	63.1%	to	7.12	19.27
				31 DEC 2016 CENTS	30 JUN 2016 CENTS
Net Tangible Asset per Share					
Net tangible asset backing per ordinary share	Down	2.2%	to	125.53	128.29

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Dividends

A final ordinary dividend of 3 cents per share (100% franked) was paid on 8 November 2016 (declared 26 August 2016) in respect of the financial year ended 30 June 2016 (total value: \$11.643m).

No dividends are proposed for the half year ended 31 December 2016.

Gain or Loss of Control over Entities

Through a buy back arrangement in August 2016, the Group effectively acquired additional interest in TFS Sandalwood Project 2002, resulting in the Group having a direct interest of 35% and an indirect interest of 12%. The gain of control over TFS Sandalwood Project 2002 did not have a contribution to the Group's profit from ordinary activities during the period and the whole of the previous corresponding period.

***Definition of Cash / Non Cash**

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

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

Commentary on Results

The consolidated net profit after tax of the Group for the six month period amounted to \$28.316m (31 Dec 2015: \$67.406m). This represents half year earnings of 7.28 cents per share (31 Dec 2015: 19.87 cents).

Total revenues and other income for the period of \$152.585m (31 Dec 2015: \$160.001m) included \$67.510m (31 Dec 2015: \$83.942m) relating to the gain recognised on the fair value of the Group's wholly owned Indian Sandalwood tree plantations. This gain in the fair value of trees was attributable to a more favourable exchange rate compared to prior period and a fair value gain due to a shorter period to harvest. The higher gain in the prior period is due to a greater foreign exchange movement in the six months to 31 December 2015 compared to the current period. At 31 December 2016 the Group directly owned 2,622ha of Indian Sandalwood plantations, down from 2,638ha at 30 June 2016 following the completion of the 2016 harvest, with a fair value of \$685.010m.

Revenue also included \$65.086m from sales and services performed by the Group, up from \$60.411m for the six months ended 31 December 2015. In the period, the Group completed plantation sales of \$19.990m (up 32% from sales of \$15.246m in the prior period). Establishment fee revenue is recognised in proportion to the establishment work performed at the balance sheet date.

Product sales of \$17.073m (31 Dec 2015: \$13.132m) included sales of Indian sandalwood products to customers in China, the US and Europe of \$9.101m, up significantly from the prior period (\$0.053m), and lower sales of Australian sandalwood of \$5.736m (31 Dec 2015: \$9.342m).

In July 2016, the Group refinanced its senior secured notes (US\$200.000m with a coupon of 11.00% due in 2018) with the issuance of new notes (US\$250.000m with a coupon of 8.75% due in 2023). The premium paid on the early call of the 11.00% notes of \$10.648m is included as an expense in the six months to 31 December 2016.

The Group's sales of plantation products tend to be weighted towards the second half of the Group's financial year. Therefore, as in prior years, the results of the first six months of the financial year tend not to be representative of the full year's results.

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FOR THE HALF YEAR ENDED 31 DECEMBER 2016

Full commentary on the results for the reporting period is contained in the ASX release dated 24 February 2017 accompanying this Report and additional Appendix 4D disclosures can be found in the Directors' Report and the consolidated financial statements for the half year ended 31 December 2016.

TFS CORPORATION LTD
AND ITS CONTROLLED ENTITIES
ABN 97 092 200 854

Half Year Financial Report
For the period ended 31 December 2016

TFS CORPORATION LTD
(ABN 97 092 200 854)

HALF YEAR FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

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TFS CORPORATION LTD
(ABN 97 092 200 854)

DIRECTORS' REPORT

Your Directors present the half year financial report of TFS Corporation Ltd and its consolidated entities ("the Group") for the six months period ended 31 December 2016.

DIRECTORS

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

Mr Dalton Gooding (Chairman)

Mr Frank Wilson (Managing Director)

Mr Julius Matthys

Mr John Groppoli

Ms Gillian Franklin

Mr Michael Kay

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

DIVIDENDS PAID

A final ordinary dividend of 3 cents per share (100% franked) was paid on 8 November 2016 (declared 26 August 2016) in respect of the financial year ended 30 June 2016 (total value: \$11.643m).

No other ordinary dividend was declared and/or paid during the period.

PRINCIPAL ACTIVITIES

The principal activities during the period of entities within the consolidated entity were:

- promotion of Sandalwood plantation investment to institutional investors;
- promotion of Sandalwood investment to sophisticated investors ("SIO") and via managed investment schemes ("MIS");
- processing and sale of harvested Indian Sandalwood logs;
- manufacture and distribution of Indian and Australian Sandalwood oil and related products;
- manufacture of pharmaceutical grade Indian Sandalwood oil for end customers;
- research and development of botanical pharmaceuticals and bio-pharmaceutical products for commercialising;
- management and maintenance of Indian Sandalwood plantations;
- ownership, sale and leasing of land;
- ownership of Indian Sandalwood plantations; and
- provision of finance to investors in Indian Sandalwood plantations.

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

TFS CORPORATION LTD
(ABN 97 092 200 854)

REVIEW OF OPERATIONS

Operating results

The consolidated net profit after tax of the Group for the six month period amounted to \$28.316m (31 Dec 2015:\$67.406m). This represents half year earnings of 7.28 cents per share (31 Dec 2015: 19.87 cents).

Total revenues and other income for the period of \$152.585m (31 Dec 2015: \$160.001m) included \$67.510m (31 Dec 2015: \$83.942m) relating to the gain recognised on the fair value of the Group's wholly owned Indian Sandalwood tree plantations. This gain in the fair value of trees was attributable to a more favourable exchange rate compared to prior period and a fair value gain due to a shorter period to harvest. The higher gain in the prior period is due to a greater foreign exchange movement in the six months to 31 December 2015 compared to the current period. At 31 December 2016 the Group directly owned 2,622ha of Indian Sandalwood plantations, down from 2,638ha at 30 June 2016 following the completion of the 2016 harvest, with a fair value of \$685.010m.

Revenue also included \$65.086m from sales and services performed by the Group, up from \$60.411m for the six months ended 31 December 2015. In the period, the Group completed plantation sales of \$19.990m (up 32% from sales of \$15.246m in the prior period). Establishment fee revenue is recognised in proportion to the establishment work performed at the balance sheet date.

Product sales of \$17.073m (31 Dec 2015: \$13.132m) included sales of Indian sandalwood products to customers in China, the US and Europe of \$9.101m, up significantly from the prior period (\$0.053m), and lower sales of Australian sandalwood of \$5.736m (31 Dec 2015: \$9.342m).

In July 2016, the Group refinanced its senior secured notes (US\$200.000m with a coupon of 11.00% due in 2018) with the issuance of new notes (US\$250.000m with a coupon of 8.75% due in 2023). The premium paid on the early call of the 11.00% notes of \$10.648m is included as an expense in the six months to 31 December 2016.

The Group's sales of plantation products tend to be weighted towards the second half of the Group's financial year. Therefore, as in prior years, the results of the first six months of the financial year tend not to be representative of the full year's results.

EVENTS AFTER THE REPORTING PERIOD

There have been no significant events occurring after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC (Rounding in Financial/Directors' Reports) instrument 2016/191. The Company is an entity to which the class order the legislative instrument applies.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 for the half year financial report ended 31 December 2016 has been received and can be found on page 33 of the report.

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



Dalton Gooding
Chairman of the Board

Dated this 24th day of February 2017

TFS CORPORATION LTD
(ABN 97 092 200 854)

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

	NOTE	31 DEC 2016 \$'000	31 DEC 2015 \$'000
Revenue	2	84,910	75,995
Other income	2	67,675	84,006
Direct plantation and other operating expenses		(19,907)	(17,817)
Raw materials and consumables used		(11,356)	(6,127)
Salaries and employee benefits expense		(18,385)	(14,538)
Sales and marketing expenses		(2,035)	(2,610)
Corporate and other administration expenses		(10,070)	(10,286)
Depreciation and amortisation expenses		(6,879)	(4,686)
Finance costs		(11,975)	(14,637)
Early call premium on 11% Senior Secured Notes		(10,648)	-
Unrealised foreign exchange gain/(loss)		(11,778)	(11,563)
Fair value gain/(loss) on contingent consideration liability		(4,700)	(3,689)
Fair value gain/(loss) of biological assets - external MIS growers	7	10,761	17,932
Fair value gain/(loss) of external MIS grower liabilities	7	(10,761)	(17,932)
Gain on acquisition of controlling interests		-	17,177
Profit before income tax expense		44,852	91,225
Income tax expense		(16,536)	(23,819)
Profit for the period		28,316	67,406
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		(26)	(387)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		-	2,373
Net gain on uplift in land of associated entity (net of tax)		-	248
Total comprehensive income for the period		28,290	69,640
Earnings per share			
Basic earnings per share (cents per share)	15	7.28	19.87
Diluted earnings per share (cents per share)	15	7.12	19.27

The accompanying notes form part of these financial statements

TFS CORPORATION LTD
(ABN 97 092 200 854)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	NOTE	31 DEC 2016 \$'000	30 JUN 2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents		89,793	106,993
Trade and other receivables	3	86,414	85,097
Inventories	4	50,172	24,986
Biological assets	7	8,596	28,247
Other financial assets	5	2,169	2,904
TOTAL CURRENT ASSETS		<u>237,144</u>	<u>248,227</u>
NON-CURRENT ASSETS			
Trade and other receivables	3	69,920	54,554
Other financial assets	5	7,895	7,873
Property, plant and equipment		168,192	161,714
Biological assets	7	839,550	742,961
Intangible assets and goodwill	8	283,999	265,218
Other non-current assets		12,027	11,414
TOTAL NON-CURRENT ASSETS		<u>1,381,583</u>	<u>1,243,734</u>
TOTAL ASSETS		<u>1,618,727</u>	<u>1,491,961</u>
CURRENT LIABILITIES			
Trade and other payables		48,783	49,353
Financial liabilities	9	14,521	14,048
Current tax liabilities		2,022	7,333
Provisions		2,486	2,322
Unearned income		15,184	22,347
TOTAL CURRENT LIABILITIES		<u>82,996</u>	<u>95,403</u>
NON-CURRENT LIABILITIES			
Provisions		5,679	3,291
Financial liabilities	9	540,821	442,106
Deferred tax liabilities		217,255	198,994
Deferred revenue		4,579	4,943
TOTAL NON-CURRENT LIABILITIES		<u>768,334</u>	<u>649,334</u>
TOTAL LIABILITIES		<u>851,330</u>	<u>744,737</u>
NET ASSETS		<u>767,397</u>	<u>747,224</u>
EQUITY			
Issued capital	11	283,991	280,828
Asset revaluation reserve		6,990	6,990
Foreign currency translation reserve		2,273	2,300
Option/Warrant reserve		10,442	10,078
Retained earnings		463,701	447,028
TOTAL EQUITY		<u>767,397</u>	<u>747,224</u>

The accompanying notes form part of these financial statements

TFS CORPORATION LTD
(ABN 97 092 200 854)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2016	280,828	19,368	447,028	747,224
Profit for the period	-	-	28,316	28,316
Foreign currency translation reserve	-	(26)	-	(26)
Total comprehensive income	-	(26)	28,316	28,290
Shares issued under the DRP	3,163	-	-	3,163
Share based payments	-	363	-	363
Dividends recognised for the period	-	-	(11,643)	(11,643)
Balance at 31 December 2016	283,991	19,705	463,701	767,397
Balance at 1 July 2015	188,948	18,450	367,125	574,523
Profit for the period	-	-	67,406	67,406
Net gain on uplift in land of associate entity	-	248	-	248
Foreign exchange translation	-	1,986	-	1,986
Total comprehensive income for the period	-	2,234	67,406	69,640
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued during the period	21,349	-	-	21,349
Shares issued under the DRP	2,661	-	-	2,661
Share-based payments	-	250	-	250
Dividends recognised for the period	-	-	(10,242)	(10,242)
Balance at 31 December 2015	212,958	20,934	424,289	658,181

The accompanying notes form part of these financial statements

TFS CORPORATION LTD
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	31 DEC 2016 \$'000	31 DEC 2015 \$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from operations	43,956	50,785
Payments to suppliers and employees	(73,814)	(66,572)
Payments for land held for resale	(4,249)	(13,803)
Repayment of grower loans	7,283	19,477
Proceeds from sale of loan book	10,482	-
Finance charges	(15,418)	(12,815)
Interest received	2,747	2,453
Income tax paid	(3,586)	(1,638)
Net cash flows used in operating activities	(32,599)	(22,113)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	181	142
Payments for plant and equipment	(11,220)	(13,054)
Payments for investment in own plantation	(13,005)	(7,778)
Payments for land development	(1,155)	(205)
Receipts from investments	-	73
Payments for investments	-	(1,299)
Receipts from MIS custodian accounts	717	1,527
Payments from MIS custodian accounts	(3)	(47)
Payments for land and buildings	-	(3,380)
Acquisition of subsidiaries (net of cash acquired)	-	(2,971)
Net cash flows used in investing activities	(24,485)	(26,992)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of borrowings	(266,190)	(8)
Payment of early call premium on 11% Senior Secured Notes	(10,648)	-
Net proceeds from borrowings	325,200	36,007
Dividends paid	(8,478)	(7,426)
Net cash flows from financing activities	39,884	28,573
Net decrease in cash held	(17,200)	(20,532)
Cash at the beginning of the period	106,993	72,674
Cash at the end of the period	89,793	52,142

The accompanying notes form part of these financial statements

TFS CORPORATION LTD
(ABN 97 092 200 854)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The half year financial report was authorised for issue on 24 February 2017 by the Board of Directors.

Basis of Preparation

The half year financial report for the six month period 31 December 2016 is a condensed general purpose financial report prepared in accordance with AASB 134: *Interim Financial Reporting*.

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

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

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

Accounting Policies

The accounting policies adopted in the preparation of the half year financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2016, except for the adoption of new standards and interpretations effective as of 1 July 2016.

The adoption of these amendments had no material impact on the financial position or performance of the Group.

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

Seasonality of Business

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

TFS CORPORATION LTD
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

NOTE 2: REVENUE AND OTHER INCOME

	31 DEC 2016 \$'000	31 DEC 2015 \$'000
<i>Sales revenue:</i>		
Revenue from sales and services	65,086	60,411
Revenue from product sales	17,073	13,132
Interest on grower loans	2,271	1,760
Interest received	480	692
Total sales revenue	<u>84,910</u>	<u>75,995</u>
<i>Other income:</i>		
Profit on disposal of plant and equipment	16	30
Gain on settlement of trade debtor	149	34
Fair value movement of biological assets - TFS interest	67,510	83,942
Total other income	<u>67,675</u>	<u>84,006</u>
Total revenue and other income	<u>152,585</u>	<u>160,001</u>

NOTE 3: TRADE AND OTHER RECEIVABLES

	31 DEC 2016 \$'000	30 JUN 2016 \$'000
<i>Current</i>		
Trade debtors	64,278	64,618
Allowance for impairment of receivables	(401)	(332)
	<u>63,877</u>	<u>64,286</u>
Loans to growers - I	11,798	15,706
Loans to growers - II (a)	3,185	-
Prepayments	7,216	4,780
Bonds and deposits	338	325
	<u>22,537</u>	<u>20,811</u>
<i>Non-Current</i>		
Trade receivables	181	181
Loans to growers - I	54,434	54,373
Loans to growers - II (a)	15,305	-
	<u>69,920</u>	<u>54,554</u>

- (a) The loan book relates to the part sale of the loan book signed on 29 June 2016. As the acquirer of the loan book has a full recourse to the Group, the loan book facility continues to be recognised by the Group. Refer to Note 9 for more details.

TFS CORPORATION LTD
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

NOTE 4: INVENTORIES

	31 DEC 2016 \$'000	30 JUN 2016 \$'000
At cost:		
Land held for resale (i)	6,015	2,688
Finished goods	13,898	5,690
Work in progress	4,951	3,707
Seedlings at cost	1,674	251
Seed stock	485	391
Harvested trees	16,123	8,270
Raw materials	7,218	4,149
Less: Provision for obsolete stock	(192)	(160)
	<u>50,172</u>	<u>24,986</u>

(i) Land is considered current if it is expected to be sold, in the ordinary course of business, within the next 12 months.

NOTE 5: OTHER FINANCIAL ASSETS

Current

Cash deposit - MIS custodian accounts	<u>2,169</u>	<u>2,904</u>
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Non-Current

Cash deposit - MIS custodian accounts	2,694	2,674
Cash deposit - First loss account	1,690	1,688
Cash deposit - Bank guarantee facility	3,491	3,491
Other	20	20
	<u>7,895</u>	<u>7,873</u>

The MIS custodian accounts consist of 50% of establishment fees on new MIS sales and upfront annual fee and rent fees. These fees are kept in an interest bearing account, which is maintained by an independent custodian. The establishment fees are released quarterly to the Group until completion of the establishment services. The upfront annual and rent fees shall be released to the Group in satisfaction of the annual fee and rent in year 14 of the applicable project.

TFS CORPORATION LTD
(ABN 97 092 200 854)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

During the period ended 31 December 2016, the Group acquired assets with a cost of \$11.220m (30 June 2016: \$22.148m)

No major assets were disposed of by the Group during the period ended 31 December 2016.

BTA Institutional Services Australia Limited (the security trustee for the 8.75% 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.

Fair value measurement of the Group's freehold land and buildings

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 31 December 2016 were based on an independent market appraisal obtained as at 30 June 2016 year. The valuation covered approximately 71% of the Group's properties in addition to a directors' valuation for the remaining third, and then adjusted using a DCF method to reflect any encumbrances on specific properties. This included accounting for lease fees the Group is entitled to for land leased to investors who elected to pay rent on an annual or deferred basis for the harvest life of their investment. The market appraisal was performed by CBRE, 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. There have been no change to the valuation methodology or technique during the period. .

All fair value estimates for land and buildings are included in level 3 of the fair value hierarchy. The following information shows the key inputs used in the Group's DCF valuation model for measuring fair value of freehold land.

Significant Observable Inputs

- (i) Annual lease fees per annum between \$1,500 p/ha to \$2,498 p/ha based on the price disclosed in the investment plantation product disclosure statement.
- (ii) Annual growth rate applied to lease fees between 0% to 3% per year based on the price disclosed in the investment plantation product disclosure statement.

Significant Unobservable Inputs

- (i) Estimated price per hectare based on current year sales of comparable lots of land in the same area (location and size) of \$10,000 to \$30,000 (2016: \$10,000 to \$30,000).
- (ii) Discount rate based on a market-derived rental yield based on the state where the property is located. The market rental yield applied was between 0.27% to 4.23%.
- (iii) The land will become unencumbered when the trees are harvested within 14 to 16 years of being planted. The weighted average year of harvest is 15.6 years (June 2016: 15.6 years).

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NOTE 6: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The fair value measurement of freehold land is sensitive to changes in the unobservable inputs which may result in a significantly higher or lower fair value measurement. The following table demonstrates the sensitivity to a reasonably possible change in significant unobservable inputs, with all other variables held constant (change in profit and equity):

	31 DEC 2016 \$'000	30 JUN 2016 \$'000
- Increase in estimated price per hectare by 10%	4,848	4,848
- Decrease in estimated price per hectare by 10%	(4,848)	(4,848)

NOTE 7: BIOLOGICAL ASSETS

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

	31 DEC 2016 \$'000 TFS INTEREST (i) (ii)	31 DEC 2016 \$'000 EXTERNAL MIS GROWER INTEREST (iii)	31 DEC 2016 \$'000 TOTAL
Sandalwood plantations at cost:			
Opening balance	275,466	54,620	330,086
Additions/ disposal	13,566	797	14,363
Less: Harvested trees transferred to inventory	(19,429)	-	(19,429)
	<u>269,603</u>	<u>55,417</u>	<u>325,020</u>
Add: Fair value adjustment to Sandalwood plantations:			
Opening balance	347,691	93,431	441,122
Fair value gain / (loss)	67,510	10,761	78,271
Additions / disposal	-	3,527	3,527
Other	206	-	206
	<u>415,407</u>	<u>107,719</u>	<u>523,126</u>
Total Biological Assets	<u>685,010</u>	<u>163,136</u>	<u>848,146</u>
Classified as current (iv)	8,596	-	8,596
Classified as non-current	<u>676,414</u>	<u>163,136</u>	<u>839,550</u>

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NOTE 7: BIOLOGICAL ASSETS (CONTINUED)

	30 JUN 2016 \$'000	30 JUN 2016 \$'000	30 JUN 2016 \$'000
	TFS INTEREST (i) (ii)	EXTERNAL MIS GROWER INTEREST (iii)	TOTAL
Sandalwood plantations at cost:			
Opening balance	242,604	53,822	296,426
Additions/ disposal	32,477	798	33,275
Plantation re-acquired	607	-	607
Less: Harvested trees transferred to inventory	(223)	-	(223)
	275,465	54,620	330,085
Add: Fair value adjustment to Sandalwood plantations:			
Opening balance	278,589	66,216	344,805
Fair value gain / (loss)	76,893	21,695	98,588
Additions / disposal	-	5,520	5,520
Less: Harvested trees transferred to inventory	(7,790)	-	(7,790)
	347,692	93,431	441,123
Total Biological Assets	623,157	148,051	771,208
Classified as current (iv)	22,007	6,240	28,247
Classified as non-current	601,150	141,811	742,961

- (i) Biological assets are encumbered to the extent set out in Note 6.
- (ii) This represents plantations owned by TFS and TFS' direct interest within MIS projects.
- (iii) The External MIS grower interest represents the third party grower interest in the biological assets in respect of certain MIS projects which are consolidated for accounting purposes. The Group has a restricted interest in these assets and the proceeds from the monetisation of these assets will be used to settle the external MIS grower liabilities detailed in Note 9.
- (iv) Biological assets classified as current are expected to be harvested, processed and monetised within 12 months.

	31 DEC 2016 NO.	30 JUN 2016 NO.
Physical quantity of Indian Sandalwood trees - TFS interest	1,143,864	1,146,656
Physical quantity of Indian Sandalwood trees - External MIS grower interest	274,134	270,963

(a) Measurement of fair values

(i) Fair Value Hierarchy

The fair value measurements for biological assets of \$848.146m (30 June 2016: \$771.208m) have been categorised as Level 3 in the fair value hierarchy.

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.

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NOTE 7: BIOLOGICAL ASSETS (CONTINUED)

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 1.383 AUD being the spot exchange rate at balance date (30 June 2016: 1.347 AUD).

Significant Unobservable Inputs

- (i) The trees will be harvested within 14 to 16 years of being planted. The weighted average year of harvest is 15.6 years (30 June 2016: 15.6 years).
- (ii) Forecast heartwood production provides a weighted average of 19.8kg (30 June 2016: 19.6kg) per Sandalwood tree at a 25% moisture content. The forecast heartwood production of each plantation vintage ranges from 3.6kg to 24.2kg per Sandalwood tree.
- (iii) Projected oil content from the heartwood of 3.7% (30 June 2016: 3.7%) from forecast heartwood at a moisture content of 25%.
- (iv) The price of Indian Sandalwood oil is determined with due consideration to market transactions and industry projections, arriving at an estimate of \$2,800 USD/kg (30 June 2016: \$2,800 USD/kg) and not inflated.
- (v) The cost consist of growing, harvesting, processing, marketing and sales costs, including:
- Harvesting and processing (oil extraction) costs, estimated at \$16,000 (30 June 2016: \$16,000) per hectare and \$207 (30 June 2016: \$207) per litre of oil respectively;
 - Marketing and sales costs, estimated at 5% (30 June 2016: 5%) of proceeds; and
 - Harvesting and processing (oil extraction costs) are held constant in real terms with an annual inflation rate of 3.0% (30 June 2016: 3.0%).
- (vi) The pre-tax average real rates at which the net cash flows have been discounted range between:
- 14% (30 June 2016: 14%) for trees aged 0 to 5 years;
 - 13% (30 June 2016: 13%) for trees aged 6 to 10 years; and
 - 12% (30 June 2016: 12%) for trees aged 11 years to harvest age.
- (vii) Cash flows exclude income taxes.

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

(b) Sensitivity analysis

(i) Foreign Currency Risk Sensitivity Analysis

The following table demonstrates the sensitivity of the fair value measurements of biological assets to a reasonably possible change in USD exchange rate, with all other variables remaining constant would be as follows:

	31 DEC 2016		30 JUN 2016	
	\$'000		\$'000	
	EXTERNAL MIS GROWER INTEREST		EXTERNAL MIS GROWER INTEREST	
Change in profit and equity	TFS INTEREST		TFS INTEREST	
- Improvement in AUD to USD by 10%	(55,237)	(13,459)	(48,354)	(12,393)
- Decline in AUD to USD by 10%	55,237	13,459	48,354	12,393

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NOTE 7: BIOLOGICAL ASSETS (CONTINUED)

(ii) Price Risk Sensitivity Analysis

The following table demonstrates the sensitivity of the fair value measurement of biological assets to a reasonably possible change in after tax price, with all other variables held constant:

	31 DEC 2016		30 JUN 2016	
	\$'000		\$'000	
	EXTERNAL MIS		EXTERNAL MIS	
	TFS	GROWER	TFS	GROWER
	INTEREST	INTEREST	INTEREST	INTEREST
Change in profit and equity				
- Increase in Indian Sandalwood oil price by \$100/kg	19,727	4,807	17,269	4,426
- Decrease in Indian Sandalwood oil price by \$100/kg	(19,727)	(4,807)	(17,269)	(4,426)

(iii) Heartwood Yield Sensitivity Analysis

The following table demonstrates the sensitivity of the fair value measurement of biological assets to a reasonably possible change in after tax heartwood yield rate, with all other variables remaining constant would be as follows:

	31 DEC 2016		30 JUN 2016	
	\$'000		\$'000	
	EXTERNAL MIS		EXTERNAL MIS	
	TFS	GROWER	TFS	GROWER
	INTEREST	INTEREST	INTEREST	INTEREST
Change in profit and equity				
- Increase in heartwood yield by 10%	52,283	12,739	45,700	11,713
- Decrease in heartwood yield by 10%	(52,283)	(12,739)	(45,700)	(11,713)

(iv) Discount Rate Risk Sensitivity Analysis

The following table demonstrates the sensitivity of the fair value measurement of biological assets to a reasonably possible change in after tax discount rate, with all other variables remaining constant would be as follows:

	31 DEC 2016		30 JUN 2016	
	\$'000		\$'000	
	EXTERNAL MIS		EXTERNAL MIS	
	TFS	GROWER	TFS	GROWER
	INTEREST	INTEREST	INTEREST	INTEREST
Change in profit and equity				
- Increase in discount rate by 2%	(78,307)	(9,321)	(68,259)	(9,506)
- Decrease in discount rate by 2%	96,620	10,378	84,615	10,690

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NOTE 7: BIOLOGICAL ASSETS (CONTINUED)

(c) Project risk

The Group is exposed to risks relating to its Indian Sandalwood plantations including:

(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 Indian 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 plantations.

(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 partially offsets the currency exposure described.

NOTE 8: INTANGIBLE ASSETS AND GOODWILL

	31 DEC 2016 \$'000	30 JUN 2016 \$'000
Goodwill - at cost	32,290	32,290
Supply agreements - at cost	-	478
Deferred lease and management fees - at cost		
Opening balance	109,507	93,696
Recognition of deferred fees	20,954	21,970
Deferred fees realised upon tree buy back scheme	(125)	(2,038)
Deferred fees realised upon harvest	(946)	(422)
Impairment reversal / (allowance)	(155)	(3,698)
Closing balance	129,235	109,508
Other intangible assets - at cost		
Royalties	9,278	9,278
In-process research and development	114,520	114,520
Patent	41	41
Copyrighting	85	85
Trademark	95	95
Accumulated amortisation	(1,545)	(1,077)
	122,474	122,942
Total intangibles	283,999	265,218

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NOTE 9: FINANCIAL LIABILITIES

	31 DEC 2016 \$'000	30 JUN 2016 \$'000
<i>Current</i>		
Contingent consideration (i)	12,264	7,808
External MIS grower liabilities (ii)	-	6,240
Loan book liability (iii)	2,257	-
	<u>14,521</u>	<u>14,048</u>
<i>Non Current</i>		
Contingent consideration (i)	28,032	27,788
External MIS grower liabilities (ii)	163,136	141,812
Loan book liability (iii)	11,800	-
8.75% Senior secured notes (iv)	337,853	-
11% Senior secured notes (v)	-	272,506
	<u>540,821</u>	<u>442,106</u>

- (i) The contingent consideration is carried at fair value through profit and loss. Refer to Note 19 for the basis of determining the fair value of the liability within the fair value hierarchy.
- (ii) The external MIS grower liability arises from the consolidation of certain MIS for accounting purposes. The liability will be settled with the proceeds arising from the monetisation of the external MIS grower interests in the Group's biological assets as detailed in Note 7, and will not require any additional cash contribution from the Group outside of the MIS projects. External MIS grower liabilities are carried 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 (refer Note 7) and factors in credit risk and the security provided by the underlying trees.
- (iii) The financial liability arises from a part sale of the loan book signed on 29 June 2016. The sale contributed approximately \$10.482m in cash during the six months ended 31 December 2016. The acquirer of the loan book has full recourse to the Group and as a result, the underlying loan book has not been derecognised and a financial liability recognised. The loan book sold had a carrying amount of \$18.490m; with an average discount rate of 5.7% provided to the acquirer. Approximately 9.1% of the carrying amount of the portfolio sold was also retained by the acquirer, which would be paid to the Group based on the repayment profile of the grower loans portfolio.

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NOTE 9: FINANCIAL LIABILITIES (CONTINUED)

- (iv) At 31 December 2016, a total of US\$250m has been raised from international markets from the issuance of 8.75% senior secured notes, with a maturity date of 1 August 2023. This liability has been converted to Australian dollars using an exchange rate of 1.383 (30 June 2016: 1.347). All principle in US dollars is payable at maturity date with interest to be paid semi-annually, in arrears on 1 February and 1 August of every year.

At any time prior to 1 August 2019, the Group may redeem some or all of the notes at a price equal to 100% of the principal, accrued interest to the redemption date and a “make-whole premium”. In addition to this, the Group may also redeem up to 35% of the original principal with the net proceeds of certain types of equity offerings at a redemption price of 108.75% of the principal, plus accrued and unpaid interest to the redemption date.

On or after 1 August 2019, the Group may redeem some or all of the notes at a premium that will decrease over time as set out below:

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

The notes are represented by one or more global notes and are listed on the Singapore Stock Exchange (SGX-ST) for trading. The notes are secured by a fixed and floating charge over all the assets of the Group, refer Note 6.

The proceeds of these new Notes were used to redeem the Group’s original Notes, issued in 2011 and due in 2018.

- (v) At 30 June 2016, a total of US\$200m had been raised from international markets from the issuance of 11% senior secured notes, with a maturity date of 15 July 2018. In the current period, these notes were redeemed early at a premium of 104% following the issuance of the new 8.75% senior secured note. The redemption resulted in an early call premium payment of \$10.648m.

NOTE 10: TAXATION

	31 DEC 2016 \$'000	31 DEC 2015 \$'000
<i>Current income tax:</i>		
Current tax	(1,575)	(3,867)
(Over) / under provision in respect of prior periods	(150)	(1,204)
<i>Deferred tax:</i>		
Originating and reversing temporary differences	18,261	28,890
Income tax (benefit) / expense recognised in the current year	16,536	23,819

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NOTE 10: TAXATION (CONTINUED)

	Opening balance 1 Jul 2016	Charged to income	Charged directly to equity	Acquisitions	Closing balance 31 Dec 2016
	\$'000	\$'000	\$'000	\$'000	\$'000
Deferred tax liabilities					
Sandalwood tree unrealised gain	139,079	21,652	-	-	160,731
Deferred income accrual	32,527	5,918	-	-	38,445
Plant & equipment - tax depreciation allowance	8,136	502	-	-	8,638
Revaluation adjustments	3,040	-	-	-	3,040
Intangible assets acquired	43,330	(488)	-	-	42,842
	226,112	27,584	-	-	253,696
Less: closing deferred tax assets	(27,118)	(9,323)	-	-	(36,441)
Net deferred tax liability	198,994	18,261	-	-	217,255

	Opening balance 1 Jul 2015	Charged to income	Charged directly to equity	Acquisitions	Closing balance 30 Jun 2016
	\$'000	\$'000	\$'000	\$'000	\$'000
Deferred tax liabilities					
Sandalwood tree unrealised gain	113,688	25,391	-	-	139,079
Deferred income accrual	28,109	4,418	-	-	32,527
Plant & equipment - tax depreciation allowance	6,520	1,616	-	-	8,136
Unrealised foreign exchange	7	(7)	-	-	-
Revaluation adjustments	3,912	-	(872)	-	3,040
Intangible assets acquired	-	-	-	43,330	43,330
	152,236	31,418	(872)	43,330	226,112
Less: closing deferred tax assets	(24,869)	(1,754)	(495)	-	(27,118)
Net deferred tax liability	127,367	29,664	(1,367)	43,330	198,994

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NOTE 10: TAXATION (CONTINUED)

	Opening balance 1 Jul 2016	Charged to income	Charged directly to equity	Acquisitions	Exchange differences	Closing balance 31 Dec 2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deferred tax asset						
Tax losses	-	26,357	-	-	-	26,357
Provisions and accruals	3,304	909	-	-	-	4,213
Taxable unearned MIS income	3,258	(3,065)	-	-	-	193
Unrealised foreign exchange	17,567	(14,683)	-	-	-	2,884
Transaction costs on equity issue	991	(165)	-	-	-	826
Transaction costs on debt raising	-	(30)	-	-	-	(30)
Revaluation adjustments	1,998	-	-	-	-	1,998
	27,118	9,323	-	-	-	36,441

	Opening balance 1 Jul 2015	Charged to income	Charged directly to equity	Acquisitions	Exchange differences	Closing balance 30 Jun 2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Deferred tax asset						
Provisions and accruals	2,860	444	-	-	-	3,304
Taxable unearned MIS income	5,130	(1,872)	-	-	-	3,258
Unrealised foreign exchange	15,858	1,709	-	-	-	17,567
Transaction costs on equity issue	496	-	495	-	-	991
Transaction costs on debt raising	525	(525)	-	-	-	-
Revaluation adjustments	-	1,998	-	-	-	1,998
	24,869	1,754	495	-	-	27,118

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NOTE 11: ISSUED CAPITAL AND RESERVES

	31 DEC 2016 \$'000	30 JUN 2016 \$'000
390,199,993 fully paid ordinary shares (30 Jun 2016: 388,090,145)	283,991	280,828

	31 DEC 2016 NO.	30 JUN 2016 NO.
At the beginning of the period	388,090,145	326,983,445
Shares issued on 4 Aug 2015 as part of business combination for \$18,632,845	-	12,675,405
Shares issued on 8 Oct 2015 as part of business combination for \$2,559,102	-	1,740,886
Shares issued on 5 Nov 2015 as part of business combination for \$1,346,895	-	916,255
Shares issued on 9 Nov 2015 pursuant to dividend reinvestment plan at \$1.65 per share for \$2,661,120	-	1,612,800
Shares issued on 7 Apr 2016 under capital raising plan \$1.55 per share to raise \$60,450,000	-	39,000,000
Shares issued on 5 May 2016 the company issued under share purchase plan \$1.55 per share to raise \$8,000,099	-	5,161,354
Shares issued on 8 Nov 2016 pursuant to dividend reinvestment plan at \$1.50 per share for \$3,164,770	2,109,848	-
Total	390,199,993	388,090,145

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.

	31 DEC 2016 \$'000	30 JUN 2016 \$'000
Total borrowings	337,853	272,506
Less: cash and short term deposits	(89,793)	(106,993)
Net debt	248,060	165,513
Total equity	767,397	747,222
Total capital	1,015,457	912,735
Gearing ratio	24.43%	18.13%

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NOTE 12: CONTROLLED ENTITIES

	Country of Incorporation / Place of Business	31 DEC 2016 % owned	30 JUN 2016 % owned
Parent of entity:			
TFS Corporation Ltd	Australia	-	-
Subsidiaries of parent:			
Tropical Forestry Services Ltd	Australia	100	100
TFS Leasing Pty Ltd	Australia	100	100
TFS Properties Ltd	Australia	100	100
Arwon Finance Pty 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
Santalís Pharmaceuticals Inc.	USA	100	100
Santalís Healthcare Corporation (formerly ViroXis Corporation)	USA	100	100
TFS Sandalwood Project 2000 (a) (b) (d)	Australia	-	67
TFS Sandalwood Project 2002 (c)	Australia	35	-
TFS Sandalwood Project 2004 Premium (a) (b)	Australia	13	13
TFS Sandalwood Project 2005 (a) (b)	Australia	14	14
TFS Sandalwood Project 2006 (a) (b)	Australia	17	17
TFS Sandalwood Project 2007 (a) (b)	Australia	33	33

- (a) Control is assessed in accordance with the principles of AASB 10 *Consolidated Financial Statements*, consistent with Note 1(z) in the Group's last annual financial statements for the year ended 30 June 2016.
- (b) The ownership interest reflected in the table above represents TFS' direct interest in the wood lots within the schemes. In addition to these direct interest the Group had an indirect interest in TFS 2004 Premium, TFS 2005, TFS 2006 and TFS 2007 of 37%, 24%, 26% and 14% respectively (30 June 2016: 37%, 24%, 26% and 14%, respectively).
- (c) In this reporting period, through a buy back arrangement, TFS effectively acquired additional interest in TFS 2002. TFS now has a direct interest of 35% and an indirect interest of 12%. The impact of consolidating TFS 2002 resulted in an increase in the carrying amount of biological assets and external MIS grower liabilities by \$4.323m.
- (d) This project has been harvested in the current period.

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NOTE 13: SHARE-BASED PAYMENTS

On 15 December 2016, 242,577 performance rights were granted to the Managing Director under the TFS Long Term Incentive Plan ("TFS LTIP"). The performance rights are subject to two performance hurdles which are independent and will be tested separately. Details of the performance hurdles are as follows:

Cash EBITDA performance hurdle - Cash EBITDA - performance rights will be subject to the Group's cash EBITDA growth performance over the period 1 July 2016 to 30 June 2019.

TSR performance hurdle - performance rights subject to the Group's growth in Total Shareholder Return ("TSR") over the period 1 July 2016 to 30 June 2019.

The number of performance rights, subject to the cash EBITDA hurdle and TSR hurdle, that vest, if any, will be determined by the Board with reference to the cash EBITDA achieved and annual TSR growth 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 1.77%. The cash EBITDA 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.

The weighted average fair value of the rights at grant date was \$1.67 (cash EBITDA performance right) and \$0.96 (TSR performance right) and is calculated applying the following inputs:

Weighted average share price	\$0
Expiry date	19 December 2023
Underlying share price at date of grant	\$1.67
Share price volatility	46.77%
Dividend yield	1.8%

On 15 December 2016, 977,663 performance rights were granted to Key Management Personnel under the TFS Long Term Incentive Plan ("TFS LTIP"). The performance rights are subject to two performance hurdles which are independent and will be tested separately. Details of the performance hurdles are as follows:

Cash EBITDA performance hurdle - Cash EBITDA - performance rights will be subject to the Group's cash EBITDA growth performance over the period 1 July 2016 to 30 June 2019.

TSR performance hurdle - performance rights subject to the Group's growth in Total Shareholder Return ("TSR") over the period 1 July 2016 to 30 June 2019.

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

The weighted average of the fair value of the rights at grant date was \$1.67 (Cash EBITDA performance right) and \$0.96 (TSR performance right) and is calculated applying the following inputs:

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NOTE 13: SHARE-BASED PAYMENTS (CONTINUED)

Weighted average exercise price	\$0
Expiry date	19 December 2023
Underlying share price at date of grant	\$1.67
Share price volatility	46.77%
Dividend yield	1.8%

NOTE 14: 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 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 vehicles 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 provided 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) Pharmaceutical

This segment is located in the US and is responsible for research and development of pharmaceutical and bio-pharmaceutical products for commercialising.

No operating segments have been aggregated to form the above reportable operating segments.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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NOTE 14: SEGMENT INFORMATION (CONTINUED)

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

Primary reporting in business segments

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	31 DEC 2016 \$'000	31 DEC 2015 \$'000	31 DEC 2016 \$'000	31 DEC 2015 \$'000	31 DEC 2016 \$'000	31 DEC 2015 \$'000	31 DEC 2016 \$'000	31 DEC 2015 \$'000	31 DEC 2016 \$'000	31 DEC 2015 \$'000
<i>Segment revenue</i>										
Establishment fees and land sales	29,709	31,050	-	-	-	-	-	-	29,709	31,050
Lease and management fees	9,015	8,593	-	-	-	-	-	-	9,015	8,593
Product sales	-	-	-	-	17,011	13,057	-	76	17,011	13,133
Interest - external	461	646	2,283	1,802	2	3	2	1	2,748	2,452
Interest - inter segment	1	-	-	-	-	-	-	-	1	-
Other - external	6,484	4,884	169	182	63	44	148	359	6,864	5,469
Other - internal	18,170	329	-	-	316	498	-	-	18,486	827
Accrued income recognition	19,727	15,363	-	-	-	-	-	-	19,727	15,363
Gain on fair value of plantation - TFS interest	67,510	74,542	-	-	-	-	-	-	67,510	74,542
Total segment revenue	151,077	135,407	2,452	1,984	17,392	13,602	150	436	171,071	151,429
<i>Reconciliation of segment revenue to group revenue</i>										
Other income									(67,675)	(74,607)
Intersegment revenue									(18,486)	(827)
Total group revenue from ordinary activities									84,910	75,995

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NOTE 14: SEGMENT INFORMATION (CONTINUED)

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	31 DEC	31 DEC	31 DEC	31 DEC	31 DEC	31 DEC	31 DEC	31 DEC	31 DEC	31 DEC
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Results										
Earnings before interest, tax, depreciation and amortisation (EBITDA)	89,732	87,591	2,368	1,919	3,566	5,524	(3,302)	(1,527)	92,364	93,507
<i>Reconciliation of segment EBITDA to group EBITDA</i>										
Inter segment profit									(18,486)	(827)
Unallocated gain									-	17,177
									<u>73,878</u>	<u>109,857</u>
Segment results before income tax	<u>61,128</u>	<u>69,296</u>	<u>2,362</u>	<u>1,954</u>	<u>3,158</u>	<u>5,164</u>	<u>(3,310)</u>	<u>(1,539)</u>	<u>63,338</u>	<u>74,875</u>
<i>Reconciliation of segment result to group net profit before tax</i>										
Inter segment profit									(18,486)	(827)
									-	-
Unallocated gain									-	17,177
Net profit before tax from continued operations									<u>44,852</u>	<u>91,225</u>

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NOTE 14: SEGMENT INFORMATION (CONTINUED)

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	31 DEC	30 JUN	31 DEC	30 JUN	31 DEC	30 JUN	31 DEC	30 JUN	31 DEC	30 JUN
	2016	2016	2016	2016	2016	2016	2016	2016	2016	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment Assets	1,288,607	1,199,345	88,150	72,947	68,874	46,759	137,685	137,324	1,583,316	1,456,375
Segment increases for the period:										
Capital expenditure	7,273	22,258	-	-	-	-	-	-	7,273	22,258
Acquisitions	4,520	7,211	-	-	-	1,325	-	-	4,520	8,536
	11,793	29,469	-	-	-	1,325	-	-	11,793	30,794
<i>Reconciliation of segment assets to group assets</i>										
External MIS grower interest in biological assets									163,136	148,051
Inter segment receivables eliminated on consolidation									(127,725)	(112,465)
Total group assets from continuing operations									1,618,727	1,491,961
Segment Liabilities	611,824	542,965	71,820	58,774	14,899	2,476	73,620	67,698	772,163	671,913
<i>Reconciliation of segment liabilities to group liabilities</i>										
External MIS grower liabilities									163,136	148,051
Inter segment eliminations									(83,969)	(75,227)
Total group liabilities from continuing operations									851,330	744,737

Geographic information

The non-current assets of the Pharmaceutical reporting segment are all located in the USA.

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NOTE 15: EARNINGS PER SHARE (EPS)

	31 DEC 2016 \$000	31 DEC 2015 \$000
Earnings used in calculating basic and diluted earnings per share	28,316	67,406

	NUMBER OF SHARES 31 DEC 2016	31 DEC 2015
Weighted average number of ordinary shares for basic EPS (i)	388,697,873	339,295,000
Effect of dilution of warrants	9,260,352	10,440,000
Weighted average number of ordinary shares adjusted for the effect of dilution	397,958,225	349,735,000

(i) 1,220,240 performance rights are contingently issuable and are not included in the diluted EPS.

NOTE 16: DIVIDENDS

	31 DEC 2016 \$000	31 DEC 2015 \$000
<i>Dividends paid</i>		
Final fully franked dividend of 3 cents per share paid on 8 November 2016 (31 December 2015: 3 cents per share)	11,643	10,242

NOTE 17: EVENTS AFTER THE REPORTING PERIOD

No events have occurred since the end of the reporting period which have or may significantly affect the Group's operations, results of operations or state of affairs in future financial years.

NOTE 18: CONTINGENT LIABILITIES

- (i) A controlled entity is managing a portfolio of MIS grower loans on behalf of the Commonwealth Bank of Australia (CBA) and under the agreement the entity has a legal liability to indemnify the CBA for any defaulting grower loans. This legal liability is limited to \$1.690m being the amount of cash available in the First Loss Account (refer Note 5). The portfolio of loans consists of existing loans sold to the CBA in 2008 and direct grower funding for the TFS 2008 and TFS 2009 projects. Once indemnified the Group takes the loan back onto its balance sheet with the established Sandalwood trees acting as security over the receivable.
- (ii) Included in the sales to sophisticated investors during June 2014 are put options whereby the investor can elect to sell the trees back to the Group at the lower of market value or a predetermined price. These put options are eligible to be exercised in September 2018, and if exercised the Group would be required to pay the consideration in November 2018 and November 2019. If all the options were exercised the Group would be required to acquire the plantations from the sophisticated investors at the lower of a predetermined price of \$51.321m or market value. The Group has deemed the likelihood of the put options being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.

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NOTE 18: CONTINGENT LIABILITIES (CONTINUED)

- (iii) Included in the sales to an institutional investor during June 2014 is a put option whereby the investor can elect to sell the trees back to the Group at a predetermined price, exercisable by 30 April 2017. If exercised the Group would be required to pay the consideration in September 2017. If the options were exercised the Group would be required to acquire the plantations from the institutional investor for \$33.924m. The Group has deemed the likelihood of the put option being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.

NOTE 19: FINANCIAL INSTRUMENTS

The Group's financial instruments consist of trade and other receivables, other financial assets (excluding cash and cash equivalents), trade and other payables and financial liabilities.

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

	31 DEC 2016		30 JUN 2016	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Financial assets:				
First loss, bank guarantee, escrow and custodian account	10,044	10,044	10,756	10,756
Trade and other receivables	155,996	156,980	139,651	131,765
	<u>166,040</u>	<u>167,024</u>	<u>150,407</u>	<u>142,521</u>
Financial liabilities:				
Secured notes	337,853	288,042	272,506	282,834
External MIS grower liabilities	163,136	163,136	148,055	148,051
Trade and other payables	48,783	48,783	49,353	49,353
Contingent consideration	40,296	40,296	35,596	35,597
Loan book liability	14,057	14,057	-	-
	<u>604,125</u>	<u>554,314</u>	<u>505,510</u>	<u>515,835</u>

(i) Fair Value Hierarchy

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.

Financial liabilities measured at fair value are categorised as follows:

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NOTE 19: FINANCIAL INSTRUMENTS (CONTINUED)

	31 DEC 2016			30 JUN 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities:						
External MIS grower liabilities	-	-	163,136	-	-	148,051
Contingent consideration	-	-	40,296	-	-	35,596
	-	-	203,432	-	-	183,647
						\$'000
<i>External MIS grower liabilities</i>						
As at 1 July 2016						148,051
Loss on re-measurement of external MIS grower liabilities						10,761
Additions due to consolidation of TFS 2002						4,324
As at 31 December 2016						163,136
As at 1 July 2015						120,038
Loss on re-measurement of external MIS grower liabilities						21,695
Additions due to consolidation of TFS 2000						6,318
As at 30 June 2016						148,051
<i>Contingent consideration</i>						
At at 1 July 2016						35,596
Re-measurement of contingent consideration						4,700
As at 31 December 2016						40,296
As at 1 July 2015						-
Contingent consideration from business combination						38,191
Re-measurement of contingent consideration						(2,595)
As at 30 June 2016						35,596

(ii) *Valuation methods and assumptions*

External MIS grower liabilities

The fair value of the external MIS grower liabilities is determined using a probability weighted discounted cash flow method. This is consistent with the method adopted by the Group to value its biological assets (refer Note 7) and factors in credit risk and the security provided by the underlying trees.

Contingent consideration

As part of the acquisition of Santalis and Santalis Healthcare (previously known as ViroXis), part of the total consideration is contingent, based on performance of the acquired entities. A probability weighted discounted cash flow method has been used to determine the fair value of the contingent consideration, net of the fair value of the option to settle in shares.

The Group will pay the vendors further consideration over the next 8 years if further milestones and performance criteria are achieved. The additional future contingent consideration was assessed to have a fair value (discounted) of \$38.191m at the date of acquisition. At 31 December 2016, the fair value of the contingent consideration had increased to \$40.296m (June 2016: \$35.596m) due to the unwinding of the discount (\$2.843m) and changes in foreign currency (\$1.856m).

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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NOTE 19: FINANCIAL INSTRUMENTS (CONTINUED)

Description of contingent consideration arrangements

The undiscounted total of all future payments that the Group could be required to make under the contingent consideration arrangement is between US\$0 and US\$221.500m.

The fair value of the contingent consideration arrangement of \$40.296m was estimated by using the discounted cashflow methodology, taking into consideration the option to settle in shares at TFS's election. The fair value measurement is based on significant inputs that are not observable in the market, which AASB 13 Fair Value Measurement refers to as Level 3 inputs.

Significant unobservable valuation inputs are provided below:

Discount rate	15%
Revenue from the successful commercialisation of products	\$334.081m
USD to AUD exchange rate	1.373 (spot exchange rate at acquisition date)

A significant increase (decrease) in the revenue from the successful commercialisation of products would result in higher (lower) fair value of the contingent consideration liability, while significant increase (decrease) in the discount rate and USD to AUD exchange rate would result in lower (higher) fair value of the liability.

Sensitivity analysis - Contingent consideration

(a) Foreign Currency Risk Sensitivity Analysis

The following tables demonstrate the sensitivity to a reasonably possible change in exchange rate in the Australia dollar to US dollar, with all other variables remaining constant would be as follows:

	31 DEC 2016	30 JUN 2016
	\$'000	\$'000
Change in profit and equity		
Improvement in AUD to USD by 10%	3,028	2,750
Decline in AUD to USD by 10%	(3,028)	(2,750)

(b) Discount Rate Risk Sensitivity Analysis

The following tables demonstrate the sensitivity to a reasonably possible change in discount rate, with all other variables remaining constant would be as follows:

	31 DEC 2016	30 JUN 2016
	\$'000	\$'000
Change in profit and equity		
Increase in discount rate by 2%	543	1,429
Decrease in discount rate by 2%	(584)	(1,553)

(c) Revenue Risk Sensitivity Analysis

The following tables demonstrate the sensitivity to a reasonably possible change in revenue, with all other variables remaining constant would be as follows:

	31 DEC 2016	30 JUN 2016
	\$'000	\$'000
Change in profit and equity		
Improvement in revenue by 10%	(1,621)	(771)
Decline in revenue by 10%	(206)	(3,373)

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NOTE 20: RELATED PARTY DISCLOSURES

The following transaction have been entered into with related parties during the six months ended 31 December 2016:

- (i) Total loans owed to the Group by directors at 31 December 2016 amounted to \$10.665m (30 June 2016: \$12.689m). Loans to directors are charged interest at normal commercial terms and conditions that are no more favourable than those available to other parties.
- (ii) A subsidiary of TFS Corporation Ltd entered into a loan book sale with a related entity. The carrying value at the time of disposal of these loans was \$1.475m. This transaction was completed at normal commercial terms and conditions that are no more favourable than those available to other parties. Dalton Gooding is a director and minority shareholder of this related entity. Refer to Note 9 for details of the loan book sale.

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DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of TFS Corporation Ltd, I state that:

1. In the opinion of the Directors:
 - (a) the half year financial report and notes of the consolidated entity for the six months ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year on that date; and
 - (ii) complying with Accounting Standards and the *Corporations Regulations 2001*;
 - (b) the half year financial report and notes also comply with AASB 134 *Interim Financial Reporting* as disclosed in Note ; and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the six months ended 31 December 2016.



Dalton Gooding
Chairman of the Board

Dated at Perth this 24th day of February 2017.

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

As lead auditor for the review of TFS Corporation Ltd for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of TFS Corporation Ltd and the entities it controlled during the financial period.



Ernst & Young



D S Lewsen
Partner
24 February 2017

To the members of TFS Corporation Ltd

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of TFS Corporation Ltd, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of TFS Corporation Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of TFS Corporation Ltd is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



D S Lewsen
Partner
Perth
24 February 2017