TFS Corporation Ltd

Annual Report 2014

Corporate Directory

TFS CORPORATION LTD
A.B.N. 97 092 200 854
AND CONTROLLED ENTITIES

DIRECTORS

Mr Patrick O'Connor (Non-Executive Chairman)
Mr Frank Wilson (Chief Executive Officer)
Mr Ronald Eacott
Mr Julius Matthys
Mr Stephen Atkinson (resigned 2 September 2014)
Mr John Groppoli (appointed 10 October 2014)
Mr Dalton Gooding (appointed 16 October 2014)

COMPANY SECRETARY

Mr Quentin Megson
Mr Simon Storm

AUDITORS

Bentleys
Level 1, 12 Kings Park Road
West Perth WA 6005

REGISTERED OFFICE/PRINCIPAL PLACE OF BUSINESS

169 Broadway
Nedlands WA 6009
Telephone: 08 9386 3299
Facsimile: 08 6389 1546
Email: tfs@tfsltd.com.au
Website: www.tfsltd.com.au

SHARE REGISTRY

Link Market Services Limited
Level 4
Central Park
152 St Georges Terrace
Perth WA 6000
Telephone: 1300 554 474
Overseas: +61 2 8280 7111

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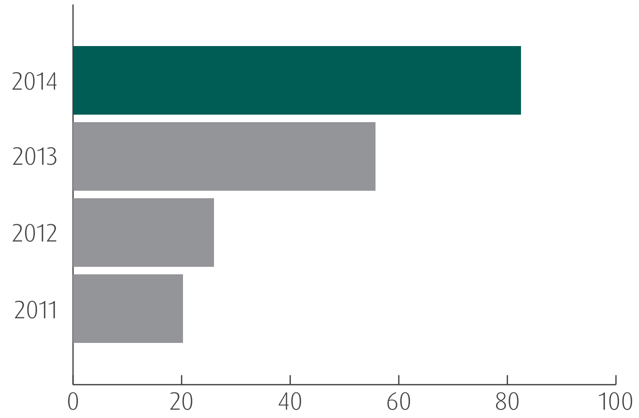
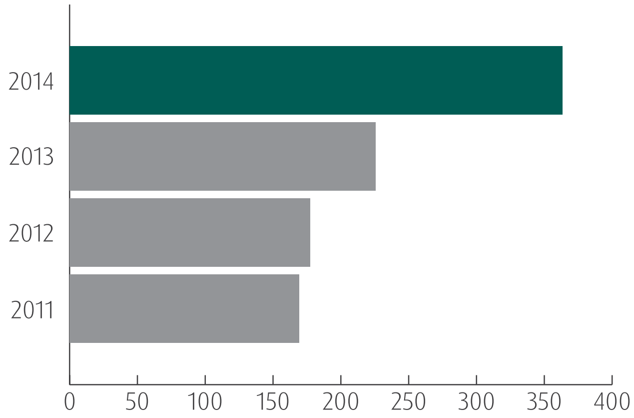
Highlights

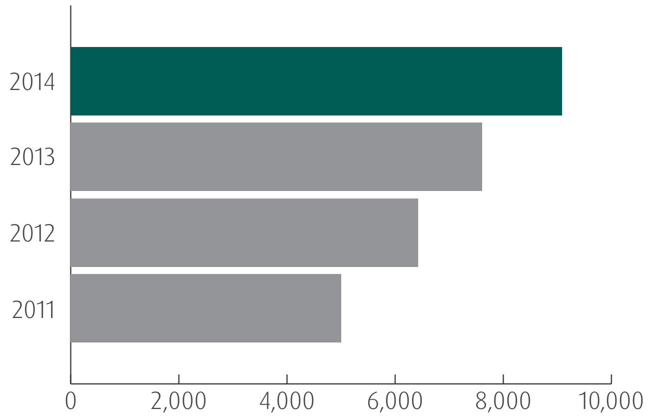
Net Profit After Tax ($m)



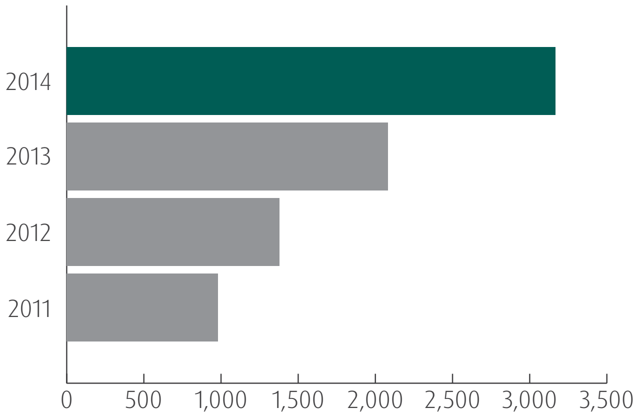
Net Tangible Assets ($m)



Total Estate Size at 30 June (ha)



TFS Owned Estate at 30 June (ha)



Chairman's Report

Dear Shareholders,

Your Board is pleased to report a record full year net profit after tax of $82.5 million, up 48% on the previous financial year.

For shareholders the year has seen the share price rise from $0.51 at 30 June 2013 to $1.65 at 30 June 2014. Importantly, the company was admitted in the S&P/ASX All Australian 200 Index as from 20th September 2014, which should increase the research coverage and institutional market interest in the company's shares.

Your Board declared a final dividend of $0.03 per share, which, whilst modest, is in keeping with the Board's plan to conservatively conserve cash until future oil sales become significant. It also maintains some discipline on the company's focus on the returns to shareholders.

A significant milestone achieved this financial year was the signing of a supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company. This was undertaken via our 50% owned US subsidiary Santalis Pharmaceuticals Inc. The company continues to fund Santalis' ongoing research and development work to support the development of new applications that East Indian Sandalwood Oil can be shown to provide benefit. Galderma's first product using our East Oil Sandalwood Oil will be on shelves prior to the end of this calendar year. The achievement of a sale price of US$4,500 per kilogram of oil under an exclusive supply agreement with Galderma, gives us great confidence, subject to ongoing consumer uptake, in the company's future profitability and cash flows over the coming decade.

Also completed this year was the company's first harvest and shortly after year-end the company successfully acquired the grower wood via tender with the price paid equating to approximately A$100 per kilogram of heartwood.

During the year the company increased its ownership of the plantation assets to approximately 3,200 hectares, up 52% on the previous year, out of a total estate under management of 9,085 hectares, up 19% on the previous year.

The purchase of some of the plantation from an institutional investor in our Beyond Carbon offering has given some certainty to the exercise of options for future years planting whilst achieving the company's strategy of increasing its ownership of a greater amount of the plantations.

The company was pleased to introduce during the financial year a new international institution who became a direct plantation investor alongside our existing Beyond Carbon institutional investors.

The company's future will see a continuing focus of owning an increased amount of the plantation estate under management, whilst working with end market participants, such as Galderma, to develop increasing off-take volumes at premium prices that match our forecast increasing supply from the plantations under management when harvested.

The company successfully completed a placement in May 2014 which raised $67 million from mainly institutional investors. The Board will look to improve the company's balance sheet by appropriately refinancing the current bond during calendar year 2015, subject to market conditions. The company will also consider opportunities for the long term increase in its ownership of plantations under management and controlling more of the value chain of 'soil to oil'.

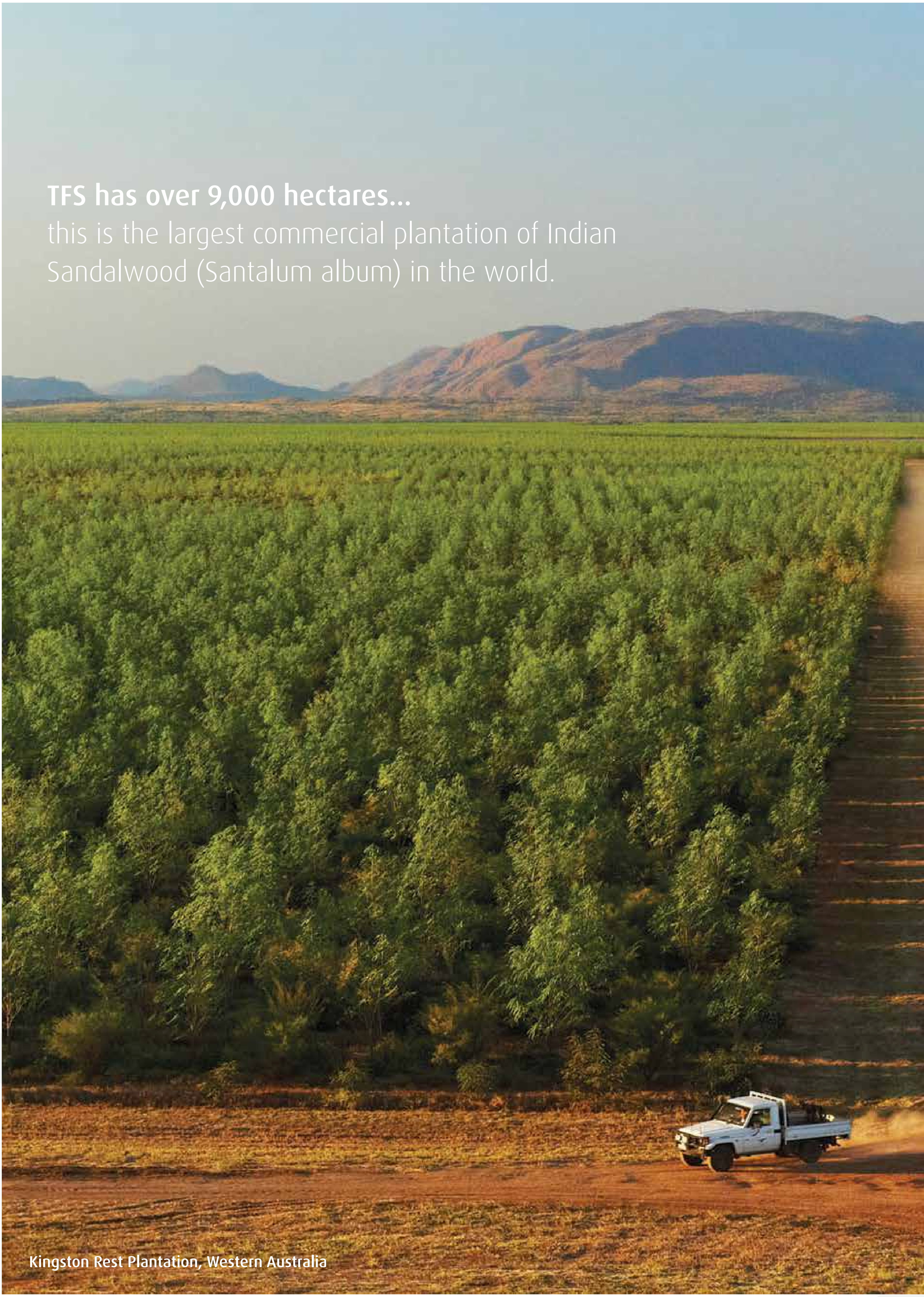
As the complexity of the operations increases from both the perspective of geographical locations and increased production related activities, there will be a need to ensure our safety and environmental performance also increases. Whilst this will present some challenges, I am confident our people will rise to the occasion.

The Board's renewal process is underway and I would like to recognise the significant contribution made by Adam Gilchirst and Stephen Atkinson who resigned during the year and Ron Eacott who will retire at the 2014 Annual General Meeting. Much of the turnaround in performance and change in the strategic direction of the company can put attributed to the contributions of the retiring directors.

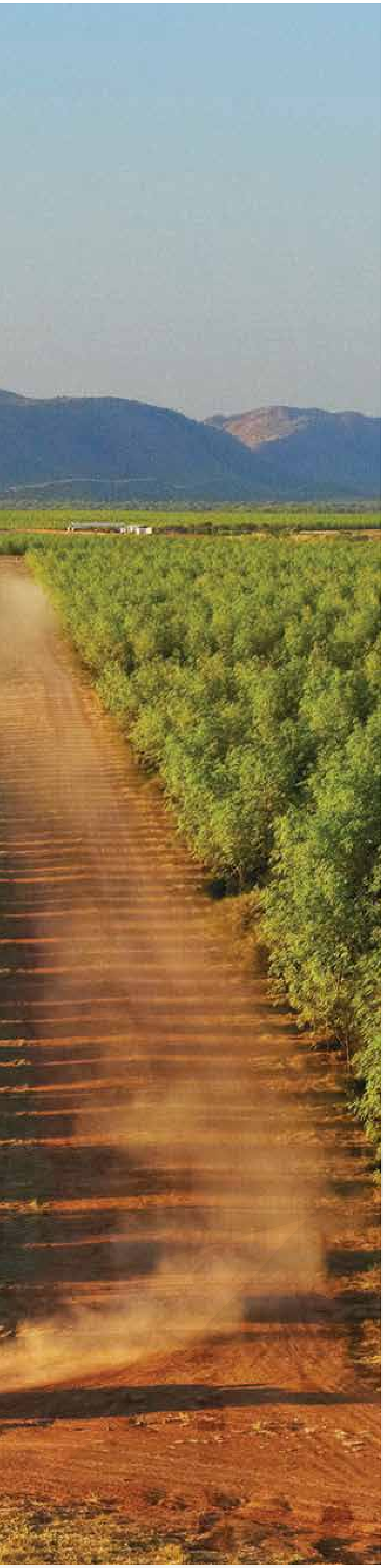
I welcome your new directors, John Groppoli and Dalton Gooding, who have joined the Board and with further candidates being considered, you Board is strengthened and has a wider range of skills to meet the challenges for the continued growth of your company.

On behalf of the Board, both past and present, I would like to thank our staff and management for the commitment and dedication to all the activities undertaken during the year.

Patrick O'Connor
Chairman



Kingston Rest Plantation, Western Australia



FY14 HIGHLIGHTS

FIRST HARVEST

June 14
Completion of first harvest

RECORD SALES

June 14
Record sales value of financial product, including new institutional investors

RECORD PLANTINGS

June 14
A record 1,587 hectares of new plantings established

INSTITUTIONAL PLACEMENT

May 14
TFS completed successful institutional placement

ASX S&P 300

March 14
TFS Entered the ASX S&P 300

MAJOR SUPPLY DEAL

February 14
Landmark supply agreement with Galderma

PLANTATION OWNERSHIP

Strong increase in direct plantation ownership

NEW CHAIRMAN

September 13
Appointment of new independent Non-Executive Chairman

TFS Group Profile

Corporate Profile

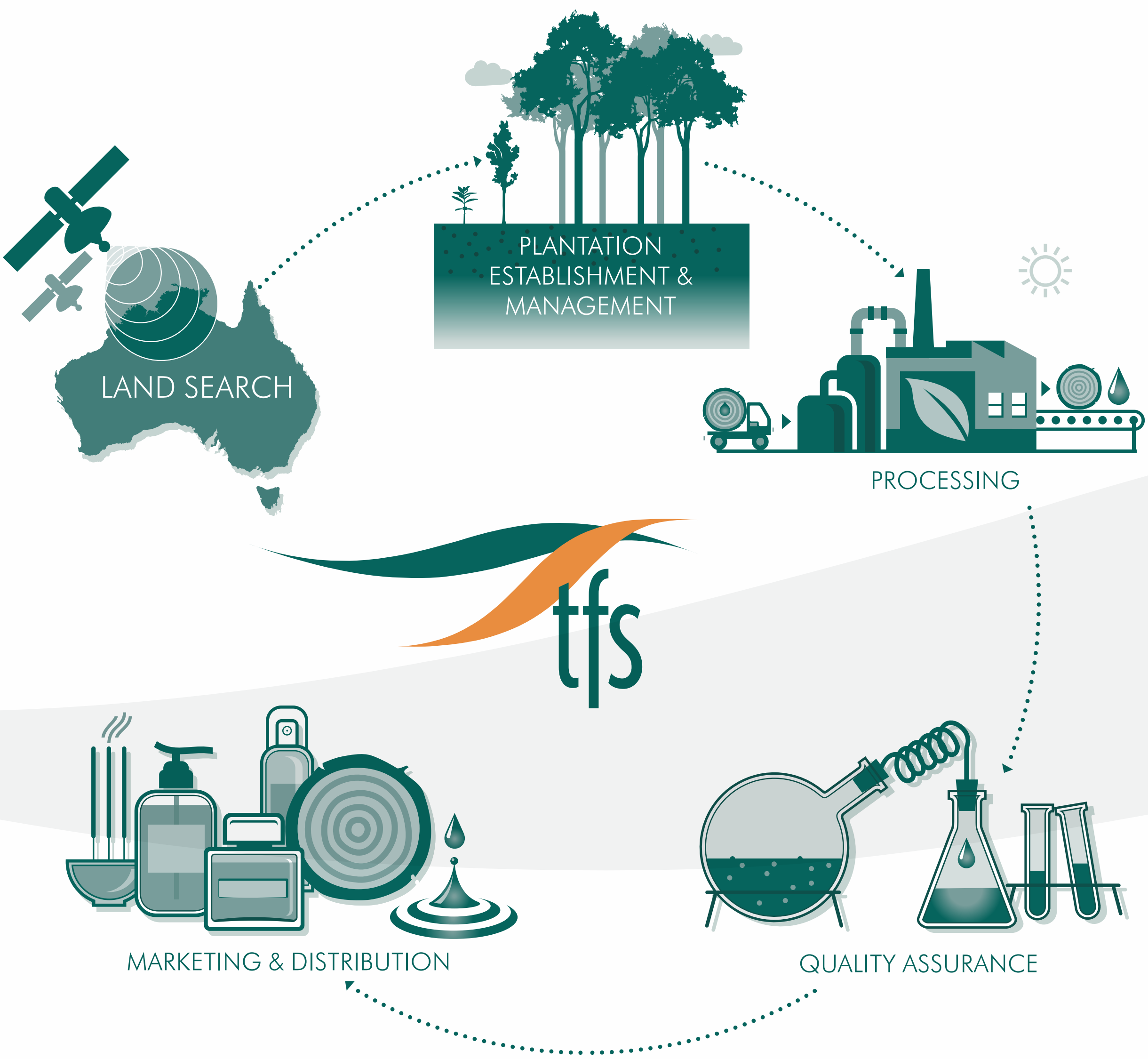
TFS Corporation Ltd (ASX: TFC) is a grower, processer and producer of Indian Sandalwood products, one of the world's most valuable tropical hardwoods that is nearing extinction in the wild.

The company manages the largest area of Indian Sandalwood (Santalum album) plantations in the world with 9,085 hectares established in Australia's tropical north. 3,167 hectares of this area is owned by TFS with the remainder managed on behalf of institutional, high net worth and retail investors.

In 2014 TFS completed its first commercial harvest of Indian Sandalwood, a key milestone in the company's history. The company also signed a licensing and supply agreement with Galderma, one of the world's largest dermatology companies, via its 50% joint venture company Santalis Pharmaceuticals Inc.

TFS is able to produce pharmaceutical grade Indian Sandalwood (Santalum album) oil at its processing and oil distribution facility, Mount Romance. The advanced intellectual property and expertise at Mount Romance, developed over more than 15 years of production, assists TFS in extracting greater value from its Indian Sandalwood plantations. As well as servicing the pharmaceutical industry Mount Romance has a client base of leading global brands in the fragrance, cosmetics and traditional markets of India and China.

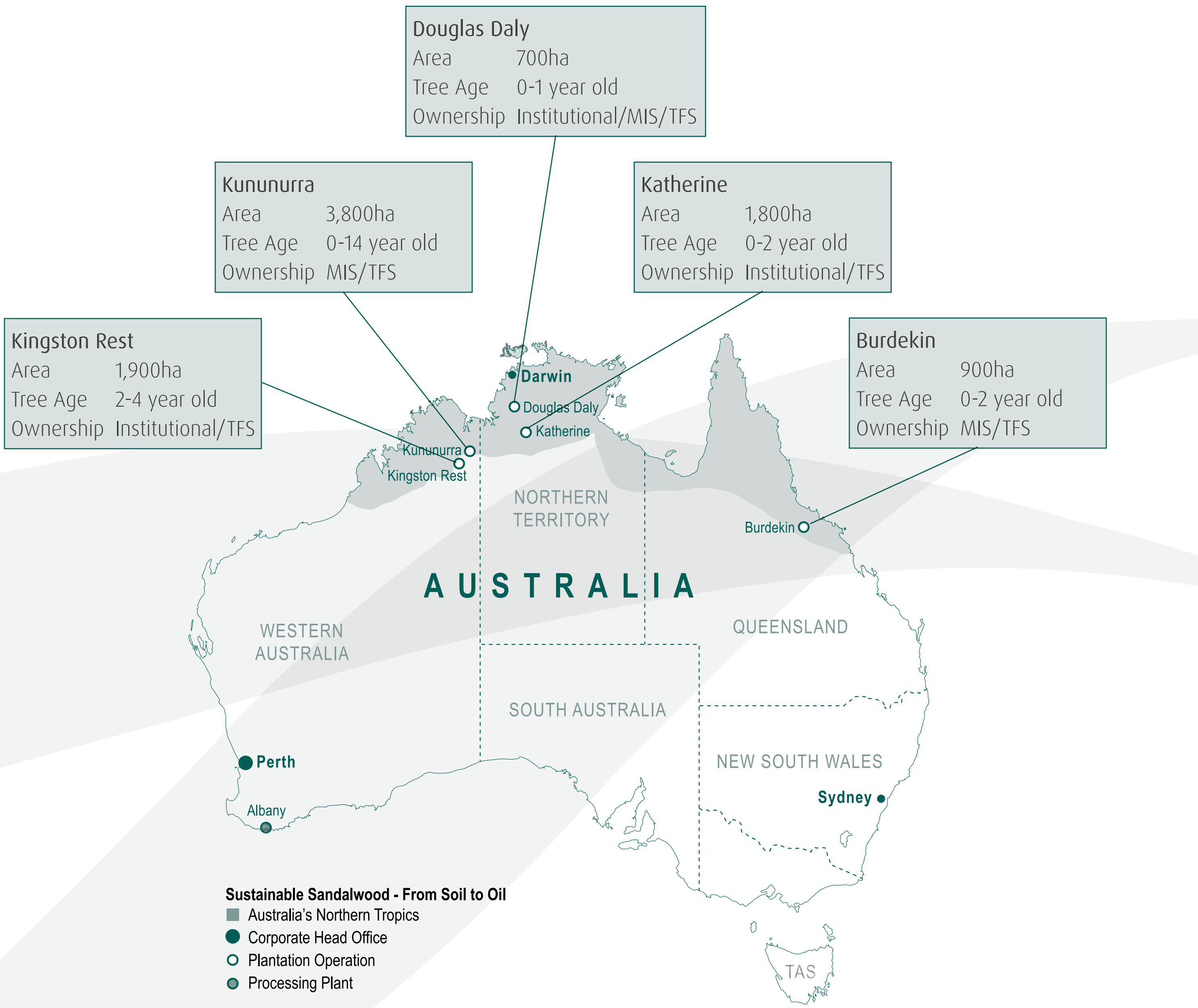
This vertically integrated business model – from soil to oil – helps TFS to capture value along the supply chain.



Land

TFS's plantations are strategically located across Northern Australia including Kununurra and Kingston Rest in the East Kimberley Region of Western Australia, the Burdekin region in Queensland and the Douglas Daly and Katherine region in the Northern Territory. These areas provide optimal growing conditions for Indian Sandalwood including fertile land with abundant irrigation and natural rainfall, sub-tropical climate, free draining soils and are located outside cyclone and flood prone areas.

TFS also owns 1,133 hectares of unplanted land suitable for commercial plantations. This will be planted over the next 2 years and sold to wholesale investors, leased to MIS investors or maintained as TFS owned land and trees. This extensive land bank provides a significant future revenue pipeline for TFS.



Plantation Establishment & Management

Investment Products

TFS offers three plantation investment products:

- Beyond Carbon ("BC") targeted at global institutional investors
- Managed Investment Schemes ("MIS")
- a hybrid product that targets Australian high net worth investors.

Our investor partnerships will continue to be a key platform for plantation development.

Ownership of Plantations

TFS has continued to increase its share of the plantations both by new plantings, and through the acquisition of established plantations. By increasing plantation ownership and building market share, TFS and its shareholders can better capture value throughout the entire 'soil to oil' supply chain. This is consistent with TFS's clearly stated strategy to increase direct ownership in Indian sandalwood plantations.

TFS now has ownership of 3,167ha* – an increase of 52% on last financial year.

*includes direct and indirect ownership (being an indirect interest in MIS and BC plantations, totalling 858ha).

In FY14 TFS acquired 718 hectares of mature plantations from investors and now has direct ownership of 2,309 hectares and total direct and indirect ownership of 3,167 hectares, an increase of 52% on last financial year. This will provide a stable and consistent supply of TFS owned Indian Sandalwood to end markets including into China and India in log form or into traditional and new markets, such as pharmaceutical and fine fragrance for oil.

Owner	FY14	FY13	FY12
Institutional	3,188	2,818	2,455
MIS + High Net Worth	3,588	3,441	3,325
TFS (direct ownership only)	2,309	1,348	646
Total	**9,085**	**7,607**	**6,426**

Plantation Management

As of 30 June 2014 TFS had 3,188 hectares under management on behalf of BC investors, 3,588 hectares under management on behalf of MIS and High Net Worth investors and 2,309 hectares of company-owned plantations.

TFS established 1,587 hectares of new Indian Sandalwood plantations during FY2014. This represented a 34% increase on FY13 and was the company's largest ever planting.

Advanced Forestry

Indian Sandalwood is difficult to cultivate due to challenging requirements for climate, soil preparation, water supply, host tree selection and seed selection.

Since inception, TFS has continued to refine its silviculture techniques to maximise yield and survival rates, thereby increasing the value of the plantations. TFS employs an expert team of horticultural and forestry managers and has undertaken extensive research to develop appropriate hosting and cultivation processes. As a result, TFS has showed continued improvements in forestry, and improved results for growth.

The Annual Inventory count completed in June reported a total of 3.9 million Sandalwood trees under management, a 92% survival rate for 2013 plantings and a low annualised mortality of <1%.

TFS owns and manages the largest purpose built Indian Sandalwood nursery, which has the capacity to produce enough seedlings for approximately 600 hectares of plantation and over 500,000 Sandalwood seedlings per season.

High quality seed stock continues to be a competitive advantage for TFS. To further improve the quality of seedlings used in new plantings TFS has continued to invest in clonal seed orchards. In 2009 progeny from select trees was established as part of a controlled trial. Measurements in 2013 showed better growth rates for these trees, with progeny from selected trees around 18% larger in diameter than trees in the control group. The seed orchards provided their first significant harvest in FY13, helping TFS to further strengthen its competitive advantage.

New plantings at Midway in the Northern Territory. Seedlings are planted within biodegradable tree-guards, which promote faster growth and reduce exposure to wind.

Harvests and Processing

Harvests

The completion of the first harvests in FY14 represented a milestone for TFS. A total of 109 hectares were harvested including 69 hectares of trees from TFS's first commercial plantation, the East Kimberley Sandalwood Project No.1 ("EKS"), established in 1999.

TFS invested more than $600,000 in capital equipment to fell and extract the root bole of trees, helping to capture greater value by improving harvest yields and minimising waste.

A further 35 hectares from TFS Sandalwood Project No.2 ("TFS2") which was established in 2000 is scheduled to be harvested in 2015.

Processing

In 2013 TFS established a Primary Processing Centre ("PPC") in Kununurra. The PPC allows logs to be graded, sorted and prepared on-site, and stored subject to processing requirements. Logs can be de-sapped using laser guided saws, and chipped suitable for distillation and transport to Mount Romance. TFS is working towards full automation of the PPC processes.

Quality Assurance

TFS subsidiary Mount Romance is the world's largest distiller of Sandalwood oil, with the capacity to process 2,000 tonnes of Indian Sandalwood heartwood per annum. The processing facility has onsite analytical equipment and sophisticated processing and distillation is conducted in accordance with International Standards for Manufacturing, Environment, Quality Control and Health & Safety.

TFS currently processes between 600-700 tonnes of Australian Sandalwood (Santalum spicatum) per year and retails aromatherapy, cosmetics and beauty products in three regional tourist locations. The company has established relationships with some of the world's leading perfume and cosmetics manufacturers.

TFS now distills Indian Sandalwood oil at the facility following the first harvests of FY14.

Marketing and Distribution

Supply and Demand Dynamics

TFS remains well-placed to capitalise on the favourable demand and supply dynamics in the global Indian Sandalwood industry.

TFS anticipates that it will be the largest global producer and supplier of Indian Sandalwood by 2020.

Heartwood found at the core of Indian Sandalwood has a variety of applications and end markets. Culturally significant in India, China and the Middle East, Indian Sandalwood heartwood is widely used for religious worship and ceremonies and in a range of wood-based consumer products. Heartwood can also be distilled into premium quality oil for use in fine fragrances, beauty products, medicines, incense and flavouring agents.

Global supplies of Indian Sandalwood have been depleted by the over-harvesting of wild trees and the lack of a sustainable plantation industry. The Indian Government has banned all exports of Indian Sandalwood as illegal harvesting has depleted natural resources. Further, supply from Indonesia, East Timor and Sri Lanka has also significantly diminished in recent years.

Significant financial and logistical restrictions also exist for new global entrants which is further expected to limit the future supply of Indian Sandalwood:

- replicating TFS's current market position would require ~17 years of investment;
- extensive intellectual property and expertise is required for Indian Sandalwood silviculture;
- it is difficult to access commercial quantities of quality Indian Sandalwood seed to establish commercial plantations; and
- high geopolitical risk is evident in most acceptable climatic locations for Indian Sandalwood growth.

TFS has signed a long-term supply agreement for pharmaceutical-grade oil at a price of US$4,500/kg.

The resulting demand and supply imbalance has been the principal catalyst for the increasing market value of Indian Sandalwood heartwood over the past 15 years.

For the above reasons, TFS anticipates that it will be the dominant global producer and supplier of Indian Sandalwood by 2020.

Licensing and Supply Agreement

In February, a landmark deal was finalised with global dermatology leader Galderma (wholly owned by Nestle) for the supply of pharmaceutical grade oil, via TFS's 50% joint venture company, Santalis Pharmaceuticals.

The deal includes a long-term supply agreement for TFS pharmaceutical grade oil at a price of US$4,500 per kg.

With distribution in more than 80 countries, Galderma has the potential to consume a large proportion of TFS's future oil production. The first launches of over-the-counter, medicinal skincare products are planned for the near term, with global launches set to follow. Already TFS has supplied 470 kilograms of pharmaceutical-grade Indian Sandalwood (Santalum album) oil, or $2.3 million in sales.

In addition to the supply of oil, the deal includes typical upfront and short-term milestone payments and annual royalties based on product launches and revenues from product sales.

Santalis Pharmaceuticals continues to research new applications for the oil, and currently plans to initiate Phase II clinical studies for prescription uses for the treatment of eczema (pediatric), actinic keratosis and acne.

In addition to sales to the pharmaceutical market TFS has achieved attractive pricing for its plantation-grown Indian Sandalwood oil in the global fine fragrance sector. In 2014 TFS sold 50 kilograms of oil - an initial order - to a leading fragrance company at a price of US$4,750 per kg. The sale highlights the wide range of markets for TFS's wood and oil products and the significant potential for price appreciation.

Sustainability Overview

Corporate Social Responsibility (CSR) is not a social tax, it is a commercial opportunity

At TFS we grow trees. That means as a company we think in decades, not weeks or months. This forms the basis of our CSR strategy, which is designed to create long-term sustainable benefits for our stakeholders, both local and global.

By finding a healthy balance between economic, social and environmental factors we believe TFS can better achieve its business strategy - mitigating corporate risks, improving stakeholder relationships and delivering returns to shareholders.

Our Vision – sustainable from soil to oil

As the world's largest grower and producer of sustainable sandalwood, the TFS vision is to be sustainable, from soil to oil. In building our vertically integrated business we aim to make sustainability one of the core values of our supply chain, creating a more efficient and effective business into the future.

Accreditation

TFS continues to expand its sandalwood plantations from its traditional base in the Kimberley region of Western Australia across the border into the Northern Territory and Queensland. TFS now has over 9,000 hectares of sandalwood plantations under management.

Despite the rapid pace of this expansion TFS has retained its high standards and core commitment to international benchmarking across its business.

In line with its commitment to best practice, TFS broadened its International Standard Organisation (ISO) certification scope to cover the TFS business. As such, ISO 14001 (Environment) as well as ISO 9001 (Quality) and AS/NZ 4801 (Health and Safety) applies to TFS Corporation Ltd (and its wholly owned subsidiaries) not just the TFS plantations.

We believe this shows TFS's strong commitment to continual improvement throughout the company.

In order to comply with these rigorous standards, TFS maintains an Integrated Management System encompassing the three areas of Environment, Quality and Safety. This system assists TFS in identifying and monitoring business indicators and risks while developing ways to improve outcomes. This system is both internally and externally audited twice a year to allow TFS to continue to improve and achieve best practice.

The ISO certification involves the following:

1. Policy
2. Planning
3. Implementation and Operation
4. Performance
5. Improvement
6. Management Review

The process of ISO certification has assisted TFS to improve risk management, establishment of new geographies, create efficiencies and promote continuous improvement throughout the organisation, ensuring we work to deliver the best sustainable returns to our shareholders.

During FY2013 TFS was ranked by Oekom Research AG as a 'Prime' investment company for Socially Responsible and Ethical Investors (SRI). This makes TFS a global industry leader recognising the company's ethical and sustainable practices.

Oekom Research AG in Germany is one of the world's leading ratings agencies and provides the crucial criteria for European investors in the segment of sustainable investments. Their clients are reputable asset managers, banks and institutional investors, currently managing a total value of EUR 520 billion on the basis of their responsibility research.

TFS has achieved a 'Prime Corporate Responsibility' rating, pre-qualifying the company as an attractive proposition for ethical and sustainable investors. The rating is commonly used as a prerequisite for investment in ethical 'supply chain' sectors, such as the growing, harvesting and sale of Indian Sandalwood. TFS is one of only seven companies in the Paper and Forest Products Industry globally to have been awarded a Prime rating.

CSR Highlights

TFS aims to achieve best practice when measured against each of the environmental, economic and social performance indicators associated with sustainability. The company has a broad program of corporate social responsibility, including sponsorships, environmental initiatives and staff programs.

Environmental

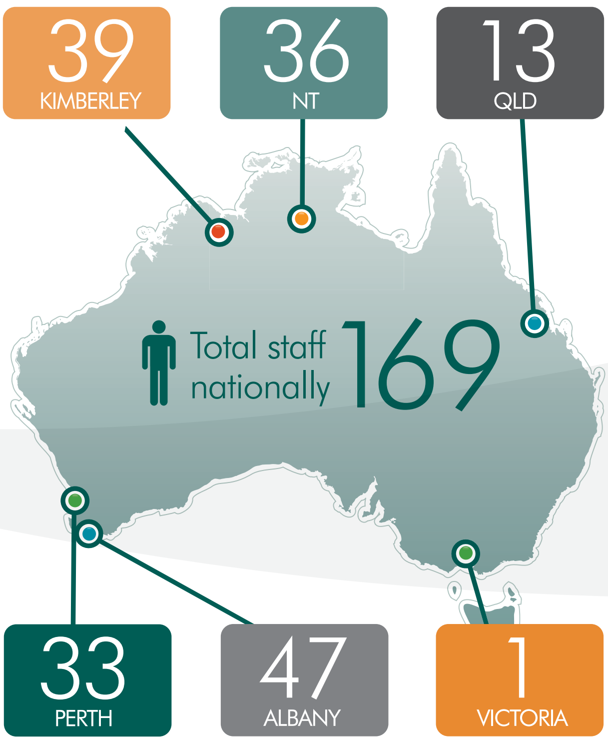
In April 2014 Mount Romance was awarded the Western Australian Water Corporation's Champion Award for its ongoing water saving measures.

Steam is required for the distillation and production of Sandalwood oil. In 2010 Mount Romance developed a Water Efficiency Management Plan to identify potential water savings. Since Mount Romance began its activities the company has reduced its scheme water use by more than 80%, saving a massive 28-million litres of drinking water. These savings have been thanks to a water recycling program which uses bacteria to purify the water so that it is safe to reuse in the production process. As well as delivering environmental benefits, water recycling reduces production costs associated with waste water disposal.

Economic

TFS's operational team continues to provide long-term employment opportunities across the region stretching from Albany in Western Australia's Great Southern to Ayr in Far North Queensland. In FY2014 the continued expansion of TFS has created more long-term sustainable employment opportunities in the remote communities where we are now based, particularly in the Katherine and Douglas Daly regions of the Northern Territory.

Permanent full time staff as at July 2014



TFS also has a large seasonal casual work force in excess of 400 casual employees over the course of a year, depending on the short-term operational needs of the company such as, planting and nursery. Together with the work completed by contractors engaged by TFS to complete specific tasks, the economic reach of TFS has grown stronger and more diverse. This expansion has contributed to the sustainability of local economies and stimulates allied industries including local businesses, contract operations and services.

> TFS's operational team continues to provide long-term employment opportunities across the region.

Social

Since 2012 we have strengthened our Human Resources team to support our staff. This team works to develop strategies and policies that help create a better working environment. This helps us to improve the wellbeing and efficiency of our staff through training and safer, positive work conditions. The result is that we attract and retain a diverse mix of high quality staff.

Our employees across the nation pride themselves on being actively involved in the communities they live and work in. Whether it is volunteering at community events or taking part in a local sports team, TFS employees live and work in their communities. We support our employees' involvement in these endeavours. TFS has renewed its major sponsorship of the Clontarf Foundation. These are just examples of a larger suite of ongoing TFS sponsorships which contribute to the vibrancy, resilience and sustainability of these communities.

Directors' Report

Your Directors present the financial report on the company and its controlled entities ("the economic entity" or "the Group") for the financial year ended 30 June 2014.

Directors:

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

Patrick O'Connor

Non-Executive Chairman
(Appointed 17 September 2013)

Qualifications:

Bachelor of Commerce, SEP Stanford (USA), FAICD

Experience:

Mr O'Connor joined the company's Board in September 2013.

Mr O'Connor has held the roles of Chairman and for a period Executive Chairman of Perilya Limited, the operator of the Broken Hill mine in NSW Australia, leading up to the change of control by Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd (China's third largest zinc producer).

He also spent 9 years as a Director of the Water Corporation in WA, four years as its Chairman and was previously the Managing Director of Macraes Mining company Limited, during which time he oversaw the development of the Macraes Gold Project and the acquisition of the Reefton Gold Project in New Zealand.

Mr O'Connor was also the Chief Executive Officer for OceanaGold Corporation Limited at the time of its listing on the ASX and remained for a period as a Non-Executive Director.

He has extensive leadership skills and wide experience in communicating with capital markets, shareholders and media, with knowledge and experience in corporate finance and governance.

Interest in shares and options: Nil

Interests in TFS Projects: Nil

Special responsibilities:

Member of Audit & Risk Committee and Remuneration Committee.

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

- Perilya Limited (February 2006 to December 2013)
- Xceed Resources Limited (May 2005 to February 2014)
- Buccaneer Energy Limited (December 2013 to Present)

Frank Cullity Wilson

Chief Executive Officer

Qualifications:

Bachelor of Laws

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 Mr Patrick O'Connor 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 options:

46,801,493 ordinary shares in TFS Corporation Ltd (14.44% of the company) at 26 August 2014.

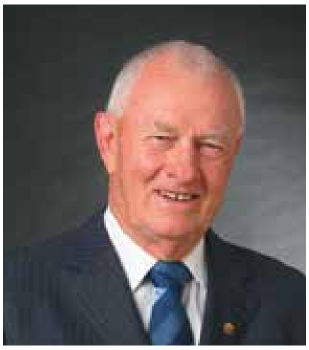
Interests in TFS Projects:

394.5Ha (2013: 280.66Ha) of interests held in TFS Indian Sandalwood projects.

Special responsibilities: Nil

Directorships held in other listed entities: None

Ronald Lionel Eacott



Director (Non-Executive)

Qualifications:

Diploma of Mechanical Engineering; Diploma of Export Management & Marketing

Experience:

Mr Eacott was appointed to the Board on 28 March 2000. He is the current Managing Director of Expo Document Copy Centre (WA) Pty Ltd, a leading company in the reprographic industry.

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.

Interest in shares and options:

4,841,201 ordinary shares in TFS Corporation Ltd (1.49% of the company) at 26 August 2014.

Interests in TFS Projects:

4.83Ha (2013: 4.83Ha) of interests held in TFS Indian Sandalwood projects.

Special responsibilities:

Chairman of Remuneration and Audit & Risk Committee and Board member representative on Compliance Committee

Directorships held in other listed entities: None

Julius Luke Matthys

Director (Non-Executive)

Qualifications:

Bachelor of Commerce

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 has just recently taken up the role of Vice President External Affairs WA for the BHP Billiton Group.

Interest in shares and options:

3,342,500 ordinary shares in TFS Corporation Ltd (1.03% of the company) at 26 August 2014.

Interests in TFS Projects:

1.33Ha (2013: 1.33Ha) of interests held in TFS Indian Sandalwood projects.

Special responsibilities:

Member of Audit & Risk Committee and Remuneration Committee.

Directorships held in other listed entities: None

Stephen Lee Atkinson

Director (Non-Executive)

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. Previously a partner of the legal firm Wilson & Atkinson and in 2002 he established a sport management consultancy business ATK Consultants.

Interest in shares and options:

1,566,668 ordinary shares in TFS Corporation Ltd (0.48% of the company) at 26 August 2014.

Interests in TFS Projects:

1.5Ha (2013: 1.5Ha) of interests held in TFS Indian Sandalwood projects.

Special responsibilities:

Member of Audit & Risk Committee.

Directorships held in other listed entities: None

Other Directors who held office during the financial year were:

Adam Craig Gilchrist

Director (Non-Executive) – Resigned 8 May 2014

Qualifications: Nil

Experience:

Mr Gilchrist was appointed to the Board on 1 July 2011. He is one of Australia's best known international cricketers (retired from international cricket since 2008) and is the only wicketkeeper in Australia to have captained the Australian Test and One Day teams. He is acknowledged for his leadership, sportsmanship and outstanding contribution to the Australian cricket industry. As the Global Ambassador for TFS Corporation since June 2010, he has been involved in the promotion of sandalwood-based products in high-growth countries on the sub-continent such as India, and has a deep understanding of TFS products and their potential in new markets. He was a member of the Local Steering Committee for the Commonwealth Business Forum, and is currently Chairman of the National Australia Day Council, appointed by the Prime Minister in 2008. He was a Non-Executive Director of Travelex Australasia from 2003-2008.

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 20 years.

Mr Simon Jonathan Storm

(appointed 16 January 2013)

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 and property development industries. In the last 12 years he has provided consulting services covering accounting, financial and company secretarial matters to various companies in these sectors.

Meetings of Directors

During the financial year, 11 meetings of Directors (including Committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors Meeting		Committee Meetings			
			Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Patrick O'Connor*	10	10	2	2	-	-
Frank Cullity Wilson	11	11	-	-	-	-
Ronald Lionel Eacott	11	11	3	3	4	4
Adam Craig Gilchrist	9	8	-	-	4	4
Julius Luke Matthys	11	10	3	3	4	3
Stephen Lee Atkinson	11	11	3	3	-	-

* Appointed to the Audit and Remuneration Committees on 29 January 2014.

Principal Activities

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

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

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

Group Overview

TFS Corporation Ltd was incorporated on 28 March 2000. TFS Corporation Ltd was listed on the Australian Securities Exchange on 21 December 2004.

TFS Corporation Ltd acquired the Mt Romance Holdings Ltd Group on 24 July 2008 and acquired the remaining 51% it did not own in Gulf Natural Supplies Co, during the 2014 financial year. The Mount Romance and Gulf Natural Supplies Co results have been consolidated as part of the TFS Group since their respective acquisition dates.

The Group also acquired a 50% interest in an incorporated joint venture, Northern Development Corporation Pty Ltd, during the 2009 financial year. During the 2012 financial year the Group acquired a 50% interest in a US incorporated entity called Santalis Pharmaceuticals Inc. ("Santalis"). These investments are accounted for in the economic entity's financial statements in accordance with the equity accounting method.

Operating Results

The consolidated comprehensive income of the Group for the financial year after providing for income tax increased 48.6% to $82.802m (2013: $55.729m).

Operating Revenue

Total revenue from ordinary activities increased 13.1% to $212.221m. In particular cash revenues increased 11.1% to $135.147m (2013: $121.669m) reflecting two new institutional investors agreeing to invest in additional Indian sandalwood plantations and continued strong sales to high net worth Australian investors. For the purpose of this report the cash revenues from institutional investors include amounts in debtors which will be settled in FY15 (of $47.321m).

Establishment fee revenue from private high net worth investors increased by 57.7% to $28.991m (2013: $18.386m) while MIS retail investors increased by 34.1% to $6.868m (2013: $5.122m). Revenue from recurring maintenance fees increased 58.0% to $17.958m (2013: $11.367m). Product sales to MIS and high net worth investors increased by 37.9% and 33.4% to 87.0 hectares and 659.3 hectares respectively (2013: MIS 63.1ha, HNW 494.3ha).

Total revenue from institutional investors of $44.718m (2013: $48.951) includes the following:

- Plantations established for two new institutional investors at establishment fees higher than the Group has previously achieved.
- As part of all 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. These fees will be paid at the completion of the investment and are expected to be a material future revenue stream for the Group. No value is attributed to these performance fees in the FY14 results.
- A significant UK based institution has established 331.0 hectares in FY14 and has been granted options to establish additional future plantations. Settlement is expected to occur in Q1 FY15.
- An Australian financial institution has established 400.0 hectares in FY14. Settlement is expected to occur in Q2 FY15.
- No sales were made in FY14 to the Group's original institutional investors. Both investors had options to establish new plantations in FY14 and these options have been extended are now expected to be exercised in FY15. In June 2014, one of these institutional investors signed a conditional agreement to exercise all their remaining options (over 548ha) in FY15.
- As a result, sales to institutional investors are expected to increase in FY15.
- Institutional sales volume decreased by 34.6% to 731.0 hectares (2013: 1,118.0 hectares)

Sales to Australian MIS customers and high net worth investors increased strongly in FY14. The high net worth product for FY14 included a put option that grants the high net worth investor the right to put the Indian sandalwood trees to TFS in FY19. A put option (in FY16) has also been granted, subject to certain conditions, to one of the institutional investors. The put options are priced so that purchase price for the Group, if the option is exercised, would be significantly below the expected fair value of the trees. As a result, the Group assesses the probability of the put options being exercised as low.

The product sold to high net worth investors, who are required to make a significant minimum acquisition, also allows the investor to participate in returns through to oil sales. This is comparable to the Beyond Carbon product but different to the MIS product which allows investors to participate through to sales of the harvested wood. The Group expects to generate significant performance fees from its sales to institutional and high net worth investors.

Non-cash revenues increased 16.7% to $77.074m (2013: $66.019m). Increases in deferred revenue and a gain on revaluation of biological assets were offset by the decrease in gain of a debtor settlement of $50.506m, not repeated in the current year.

The non-cash increase in deferred management fees was up $9.416m to $12.453m (2013:$3.037). This increment arose due to a lower impairment provision of $4.6m compared to $15.9m in FY13. The higher provision arose in the prior year as a consequence of applying a revised heartwood yield expectation to earlier plantations, which in turn has reduced accrued income receivable. Cash flow from these fees will be realised when the trees are harvested and sold.

The gain on revaluation of biological asset, representing plantations owned by the company, increased 407.4% to $63.301m (2013: $12.475m). This was primarily a consequence of increased plantation ownership (the Groups direct ownership of plantations increased from 1,348ha to 2,309ha in FY14) as well as the revaluation of the trees acquired during the year. 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 FY14.

Revenue from the production business of Mt Romance rose 11.2% to $20.475m (2013: $18.412m) with earnings before interest, tax and depreciation ("EBITDA") of $4.096m (2013: $3.210m). 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 in August 2014. This wood will be processed into oil at the Mt Romance facility and sold in FY15.

Operating Costs

Operating costs on core activities (excluding depreciation & amortisation, interest, finance costs and unrealised foreign exchange movements) increased 18.5% to $82.652m (2013: $69.767m), mainly due to:

- direct plantation and other operating expenses increasing 47.8% to $24.638m (2013: $16.668m) with the increase in size of plantations under management increasing 20% to 9,079 hectares;
- salaries and wages increasing by 19.3% to $20.546m (2013: $17.227m) as a consequence of the headcount increasing from 133 to 169 full time equivalent staff; and
- sales and marketing expenditure increasing by 9.7% to $6.378m (2013: $5.816m) with the increase due to higher volume of high net worth and MIS sales.

Interest and Financing Expenditure

Interest and finance costs for the year totalled $20.064m (2013: $16.870m). The increase mainly relates to a higher interest expense on the US$150m secured notes, due to the AU$ on average being weaker against the US$ during FY14.

Share of Net Profits of Associates

Included in the share of net profits of associates is a profit of $5.879m (2013: Nil) arising on an increase in valuation of the underlying Sandalwood in the associates plantation holding.

Statement of Cash Flows

Cash and cash equivalents increased at 30 June 2014 by 56.7% to $88.581m (2013: $56.517m). In May 2014, The Group completed an equity placement to institutional investors which raised $67m of new capital.

Operating Cash Flows

Cash flow from operating activities decreased by 66.8% to $7.240m (2013: $21.833m). The main reason for the decrease in operating cash flows compared to the previous year was the partial sale of the company's loan book, which resulted in a net cash inflow of $22.092m in FY13.

As with previous years, the Group expects positive operating cash flow in FY15 with several Beyond Carbon settlements of FY14 sales expected in the first half of FY15. Furthermore, a majority of the high net worth investors who invested in new plantations in FY14 were funded by Arwon Finance ($34.028m) and as such cash will be received in accordance with the terms of their loan agreements. The Group expects to be able to monetise a significant amount of high net worth investor loans in FY15.

Investing Cash Flows

Cash outflow for investing activities increased by 62.4% to $33.162m (2013: $20.425m).

The main drivers of this increase was a 40.7% increase in payments for plant & equipment to $18.391m (2013: $13.072m), mainly relating to the acquisition of irrigation and infrastructure assets, with a 62.4% increase in payments for investment in the company's own plantations to $12.966m (2013: $7.983m).

Financing Cash Flows

Cash flow from financing activities increased to $57.986m (2013: $0.015m) and comprised mainly the proceeds from a share placement in May 2014 of 42,000,000 shares at $1.60 per share, net of share issue costs, raising $64.444m, and the payment of the dividend declared in August 2013, of $6.444m (2013: nil).

Statement of Financial Position

Current Assets

Current assets decreased by 0.3% to $187.779m (2013: $188.343m). Cash and cash equivalents increased by 56.7% to $88.581m (2013: $56.517m) and this was partially offset by a decrease in trade receivables by 24.2% to $80.526m (2013: $106.293m) and a 33.5% decrease in inventories to $15.433m (2013: $23.192m), which primarily relates to a decrease in land inventory held for resale.

Non-Current Assets

Non-current assets increased by 50.9% to $643.737m (2013: $426.718m) mainly due to a 81.8% increase in the biological assets value to $348.105m (2013: $191.461m).

The main drivers of this increase include acquisitions of plantations from high net worth investors and an institutional investor, plantations established for benefit of the Group, natural growth of the plantations, adjustments for trees harvested, foreign exchange and tree-count movements.

In addition, trade and other receivables increased 121.4% to $47.100m (2013: $21.270m) due mainly to an increase in loans to growers. Property, plant and equipment increased 26.9% to $118.680m due mainly to the acquisition of irrigation and infrastructure assets, commensurate with the expanding operational activities.

Current Liabilities

Current liabilities increased by 111.1% to $102.304m (2013: $48.460m) mainly due to an increase in trade and other payables by 121.6% to $63.449m (2013: $28.628m), reflecting increased operational activities and significant supplier invoices for the 2014 plantings, unearned income increasing $8.415m and an $10.068m increase in the current tax liability to $13.401m (2013: $3.333m).

Non-Current Liabilities

Non-current liabilities increased by 8.6% to $262.885m (2013: $241.969m). Financial liabilities decreased 3.0% to $159.181m (2013: $164.140m) due to the restatement of the US$ denominated secured notes at year end (a relatively stronger A$ against the US$) and the deferred tax liability increasing 36.7% to $94.162m mainly arising as a consequence of the timing difference being booked on the unrealised gains on the biological assets.

Operations Review

Promotion of Wholesale Agricultural Projects and Retail Managed Investment Schemes

During the year the Group entered into contracts to establish and manage a further 731.0 hectares (2013: 1,118.0 hectares) of Indian sandalwood plantation for institutional wholesale investors. In addition the Group promoted its new project titled TFS Sandalwood Project 2014, as well as a product for Australian-based high net worth investors. A total of 746.3 hectares were subscribed for by MIS and high net worth investors during the 2014 year (2013: 557.4 hectares).

Manufacture and Distribution of Australian Sandalwood Oil and Related Products

The Mount Romance Group is in the business of manufacture and distribution of Australian sandalwood oil and related products to the international market.

In February 2014, the Group announced the completion of a licence agreement with Galderma, a global pharmaceutical company for the marketing of certain of Santalis' dermatology products. Santalis is a 50% owned joint venture entity. The dermatology products will contain TFS's Indian Sandalwood oil through a new long-term supply agreement, which has been executed in conjunction with the licence, and to date orders for 484kgs of oil have been received.

Galderma is a global pharmaceutical company which is a world leader in dermatology products with an extensive product portfolio available in 80 countries.

The licence agreement contemplates worldwide commercialisation of certain of Santalis' current and future over the counter ("OTC") product ranges on an exclusive basis, with an initial launch in the U.S. expected in the near term. The agreement secures for the Group a world-class partner.

Management and Maintenance of Plantations

The Group completed a full inventory count and analysis of its plantations under management during the year and has applied the results in this financial report. These included:

- The first count of plantations established in FY13 with results in line with expectations
- Higher than expected mortality in certain compartments (covering an area of 150 hectares) planted in 2005 and 2006
- Good performance, in line with expectations, across the balance of the plantation estate

The 2014 wet season saw record rainfall in and around Kununurra where around 4,700 hectares of the Group's estate is located. The management of the plantations in this period required a significant effort from TFS's Forestry teams and the Board recognises the diligence and skill demonstrated by many employees. There has been some evidence of slightly slower growth in the sandalwood trees, attributable to the effect of inundation, but no long term impact on mortality or heartwood yield is anticipated.

Harvest of Plantations

The first harvest of Indian Sandalwood from plantations established in Kununurra for the EKS Project was completed in June 2014. The first harvest of approximately 109 hectares was successfully completed with the harvest and processing of the wood into a marketable form taking approximately 7 weeks in total.

The EKS project was the Group's first commercial plantation, established in 1999. The project was marketed to managed investment scheme ("MIS") investors and MIS growers owned approximately 69 hectares, with the balance owned by the Group.

The harvested wood belonging to the EKS growers was sold by public tender in August 2014 and acquired by the Group.

The Group's second commercial plantation, TFS Sandalwood Project No.2 ("TFS2") which was established in 2000, is scheduled to be harvested in 2015. The plantation comprises 35 hectares. The heartwood yield from the TFS2 plantation is expected to be equivalent to the EKS plantation despite it being a much smaller plantation.

Ownership of Land and Plantations

TFS continues to expand its plantations under management by establishing over 1,587 hectares of new Indian Sandalwood plantations during the financial year.

TFS's geographic land and plantation composition (expressed in hectares) at 30 June 2014 is set out below.

	Established plantations			New plantations (2014)			Unplanted land (est.)		
	WA	QLD	NT	WA	QLD	NT	WA	QLD	NT
TFS owned	1,430	602	62	-	-	215	-	15	1,118
Beyond Carbon plantations (i)	1,107	185	1,082	-	-	814	-	-	-
MIS plantations (ii)	3,018	12	-	74	111	373	-	-	-
TOTAL (Ha)	5,555	799	1,144	74	111	1,402	-	15	1,118

(i) As at 30 June 2014, the Group was entitled under its contractual arrangement with Jarh Tree Co Pty Ltd to the cash proceeds from an estimated 83 hectares (2013: nil hectares) of BC plantations.

(ii) As at 30 June 2014, the Group was entitled under its deferred management fee arrangements to the cash proceeds from an estimated 775 hectares (2013: 738 hectares) of MIS plantations.

During FY14, the Group increased its direct ownership of plantations by 71.3% to 2,309 hectares (2013: 1,348Ha). A large part of this increase resulted from the acquisition of 364 hectares from a wholesale investor.

This increase in company-owned plantations coincides with the Board's desire to have a greater direct interest in the sandalwood plantation assets. This strategic direction was agreed upon by the Board as a result of the recognition of the very positive long term market fundamentals of Indian sandalwood ownership. The Board believes that to the extent that the company'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 (in Beyond Carbon, high net worth and retail sales) to be a key platform for the Group's operations. Growers are aligned to common objectives being to maximise the returns from the 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 (100% owned) is a provider of finance, with the major focus being the provision of finance to persons investing in agricultural projects promoted and managed by the company. 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 $22.4 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's in managing its capital requirements. The Board expects to be able to monetise another portfolio of the Arwon loan book in FY15.

The Directors believe that the Group is in a strong and stable financial position to expand and grow its current operations.

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. Following the completion of the US$150m Senior Secured Note facility, TFS Corporation Ltd established an expert treasury committee to advise the Board on managing the FX risk inherent in the facility and in particular to review and monitor the natural currency hedge that exists in the Group's balance sheet.

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 Adelaide River Camp Draft (NT).

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 7.66 (2013: 7.10), management have implemented ongoing training for all operations staff 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.

More specifically, the Group has completed a Group wide safety review from which a safety management and implementation plan has been devised, with specific emphasis on harvest related safety issues, including the new processing centre in Kununurra and transport of product to Albany.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the parent company during the financial year:

Post Balance Date Events

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2014 of 3 cents per share, to be paid on 10 November 2014. This equates to a total dividend of $9.725m.

Apart from the above no other events have occurred since balance date which have or may significantly affect the Group's operations, results of operations or state of affairs in future financial years.

Future Developments, Prospects and Business Strategies

The Directors foresee that for the 2015 financial year, the most significant areas for change will be in:

- the harvest of the Group's second Indian Sandalwood plantation,
- the continued expansion and management of plantations owned by institutional investors,
- the continued expansion of distribution markets for TFS sandalwood related wood and oil products and oil via the Mount Romance brand, the Gulf Natural Supply joint venture in the UAE and the Santalis operations in the U.S.;
- the continued development of the Group's infrastructure in Kununurra, Albany, Queensland and the Northern Territory; and
- the continued investment in the Group's human resources to ensure strategic objectives are achieved effectively and efficiently.

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 Paid

The following dividends was declared and paid during the 2014 financial year.

	Cents per share	Total amount $'000	Date of payment
Final ordinary – fully franked	3 cents per share	8,389	8 November 2013

Under the company's dividend reinvestment plan, the participation rate was 23%, with 2,535,579 shares being issued at 76.2 cents per share in November 2013.

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	Date of payment
Final ordinary – fully franked	3 cents per share	9,725	10 November 2014

The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2014 and will be recognised in subsequent financial reports.

Indemnifying Officers or Auditor

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the economic entity, other than the following:

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.

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
21 February 2008	31 December 2014*	$1.80	1,000,000
1 August 2011	15 July 2018	$1.28	55,500,000

*The date of expiry is dependent upon when the first commercial delivery of sandalwood oil takes place and therefore the above date can change. It is likely that the first delivery of Indian Sandalwood oil will occur before the end of calander year 2014.

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

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

Non-Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services, if any, are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

During the year, there were no non-audit services provided to the Group by the auditors of the company. The audit firm Bentleys was paid nil (2013: $9,000) for these services.

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 2014 has been received and can be found on page 39 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.

Remuneration Report – Audited

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 Limited (the "company") for the financial year ended 30 June 2014. 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 Group. The information provided in this remuneration report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

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.

Remuneration Policy

The company's policy for determining the nature and amount of emoluments of Board members and senior executives of the company 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 has considered advice from external advisors and benchmarks the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

The remuneration of the Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders. Given the continued growth in the company there is a need to increase the Board size by up to two new Directors in the short to medium term and a requirement to amend Directors fees commensurate with current market rates. An increase in the pool size from $500,000 to $800,000 per year will therefore be tabled for shareholder approval at the Annual General Meeting to be held on 14 November 2014.

Non-Executive Directors receive a fee of 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. The fees paid to a Non-Executive Director recognise additional participation by them on committees. 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.

The Non-Executive Chairman receives an annual fee of $180,000 with Non-Executive Directors receiving annual fees of $60,000 (2013: $60,000). All fees are inclusive of the statutory superannuation contribution.

Senior Manager and Executive Director Remuneration

The Chief Executive Officer 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 bonus for reaching or exceeding a range of key performance indicator measures. The bonus plan enables the senior executives to earn 0% to maximum 50% of their Total Fixed Remuneration.
- Eligibility for participation in the TFS employee share acquisition plan, as approved by shareholders.

The contracts for service between the company and specified Directors and Executives are on a continuing 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. In particular the Committee is undertaking the following activities in order to ensure an appropriate remuneration structure is determined that will adequately incentivise key Executives of the company, while ensuring the interests of the shareholders are maintained.

- Undertaking market reviews of Executive salary structures and adopting benchmarking for key management salaries and incentives;
- Introducing an executive long term incentive scheme to contribute to key employee retention;
- Updating the CEO and Executives' key performance indicators on an annual basis to reflect strategy and business milestones and ensure robust measurement for Short Term Incentives.

Performance Based Remuneration

Current Policy

The TFS Group seeks to emphasise payment for results through its Short Term Incentive Scheme. The objective of the reward schemes is to both reinforce the short and long term goals of the company and to provide a common interest between management and shareholders. Payments are based on the achievement of key performance indicators which include profitability, cash generation, product sales and forestry performance. The CEO and Executives can achieve between 0% and a maximum of 50% of Total Fixed Remuneration based on annual performance.

At the end of FY14, 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 FY14 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.

STI's will be paid in connection with activities undertaken in the 30 June 2014 financial year totalling $0.539m (2013: nil) of which $0.284m relates to KMP's.

2014/2015 Policy

Parameters had been set by the Remuneration Committee for remuneration design for the 30 June 2013 year. It was proposed that a Long Term Incentive Performance Rights Plan be put forward for approval by shareholders at the 2013 Annual General Meeting. Subsequent to the release of the notice of meeting, the Board received feedback from major shareholders regarding the introduction of the proposed Performance Rights Plan and decided to withdraw that resolution to allow the proposal to be refined and improved with the intention of a revised plan being resubmitted to shareholders at a future date, being the 2014 AGM.

The Remuneration Committee intends to present shareholders with a new Long Term Incentive plan that provides recipients with performance rights, based on ongoing employment and achievement of certain performance measures. The performance measures will include links to profitability and total shareholders returns. The scheme will include long term vesting dates and certain portions will be forfeited if the recipient is no longer in employment.

The CEO's remuneration will include an incentive scheme of Short Term Incentives based, on updated Key Performance Indicators, and a Long Term Incentive, which will be the subject of shareholder approval at the AGM in November 2014.

Other Key Management Personnel will be provided with competitive Total Fixed Remuneration and a Short Term Incentive based on Key Performance Indicators and a Long Term Incentive of performance rights based on ongoing employment and achievement of certain performance measures.

The Key Performance Indicators for the STI's of the CEO, Key Management Personnel and other managers in the Group will be 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.

The Board's underlying criteria for the payment of Short Term Incentives will be annual profitability. The Board retains discretion to withhold or increase individual's incentive (within the maximum cap).

Company Performance, Shareholder Wealth and Director and Executive Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and executives. This has mainly been achieved through offering a performance based bonus based on key performance indicators. The Group believes this policy has been effective in increasing shareholder wealth and in particularly ensuring that the Group is able to adapt to changes in its industry and take advantage of opportunities to improve its business model.

The following table shows the gross revenue, profits and dividends for the last four years as well as the share price at the end of the respective years:

Company Performance

	2014	2013	2012	2011	2010
Total Revenue ($'000)	212,221	187,688	126,838	111,037	116,493
Cash EBITDA	51,400	51,825	23,780	16,533	44,268
Net profit before tax ($'000)	114,659	79,842	36,006	25,461	47,928
Net comprehensive income after tax ($'000)	82,802	55,729	25,878	20,166	35,154
Share price at start of year ($)	0.51	0.50	0.89	0.84	1.18
Share price at end of year ($)	1.65	0.51	0.50	0.89	0.84
Interim fully franked dividend (cents)	-	-	-	1.25	1.25
Final fully franked dividend (cents) *	3.00	3.00	-	3.50	3.50
Basic Cash Earnings per share (cents)	6.54	7.62	2.36	3.41	12.23
Basic earnings per share (cents)	28.93	19.93	9.29	8.36	16.98
Diluted earnings per share (cents)	24.14	19.93	9.29	8.33	16.90

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

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

- Gain/(loss) on revaluation of biological assets;
- Revenue from recognition of deferred lease and management fees; and
- Unrealised foreign exchange gain/(loss).

Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance based and the proportion of remuneration received in the form of options.

Key management personnnel	Position held as at 30 June 2014 and any changes during the year	Contract details (duration & termination)	Proportion of elements of remuneration related to performance		Proportion of elements of remuneration not related to performance		
			Non-salary cash based incentives %	Options / Rights %	Shares / Units %	Fixed Salary / Fees %	Total %
Mr P O'Connor Mr RL Eacott Mr JL Matthys Mr SL Atkinson	Non-Executive Directors	No fixed term.	-	-	-	100.0%	100.0%
Mr FC Wilson	Chief Executive Officer	No fixed term. Normal contracted terms apply as detailed below.	22.1%	-	-	77.9%	100.0%
Mr ADJ Stevens	Chief Financial Officer/Chief Operations Officer	No fixed term. Normal contracted terms apply as detailed below.	21.8%	-	-	78.2%	100.0%
Mr P Correa	Operations General Manager	No fixed term. Normal contracted terms apply as detailed below.	-	-	7.9%	92.1%	100.0%

The employment terms and conditions of key management personnel and Group 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, 12 weeks for Mr Stevens and 4 weeks for Mr Correa. No amounts for termination have been agreed or contracted.

Remuneration of Directors and Key Management Personnel

The totals of the remuneration paid to KMP of the company and the economic entity during the financial year are as follows:

	2014 $	2013 $
Short-term employee benefits	1,950,117	1,771,181
Post-employment benefits	111,390	112,259
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	34,233	5,556
	2,095,740	1,888,996

Directors and Key Management Personnel Remuneration for the Years Ended 30 June 2014 and 30 June 2013

Details of Remuneration for the Year Ended 30 June 2014

	Short Term Benefits			Post Employment	Equity		
	Cash, salary & fees	Short-term incentives (v)	Other cash benefit	Super-annuation	Share based payments	Total	Perfor-mance related
Directors	$	$	$	$	$	$	%
Mr P O'Connor (i)	131,350	-	-	12,150	-	143,500	-
Mr FC Wilson (ii)	715,928	225,000	38,000	36,979	-	1,015,907	22.1
Mr RL Eacott	54,920	-	-	5,080	-	60,000	-
Mr AC Gilchrist (iii)	46,948	-	-	4,343	-	51,291	-
Mr JL Matthys	54,920	-	-	5,080	-	60,000	-
Mr SL Atkinson	54,920	-	-	5,080	-	60,000	-
	1,058,986	225,000	38,000	68,712	-	1,390,698	
Other Key Management Personnel							
Mr ADJ Stevens (iv)	192,492	58,650	-	17,806	-	268,948	21.8
Mr P Correa	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	2,095,740	

Notes

(i) Appointed as a Chairman on 17 September 2013.

(ii) Other cash benefits includes additional pro-rata fees of $38,000 for assuming the Chairman's duties, which ceased upon the appointment of the new Chairman on 17 September 2013.

(iii) Resigned as a Director on 8 May 2014.

(iv) Appointed as Chief Financial Officer on 21 January 2014 and as Chief Financial Officer and Chief Operating Officer on 9 May 2014.

(v) The following short-term incentives with respect to FY14 will be paid in FY15:

- Mr FC Wilson $225,000 (Percentage of incentive awarded 100%)
- Mr ADJ Stevens $58,650 (Percentage of incentive awarded 50%)

Details of Remuneration for the Year Ended 30 June 2013

	Short Term Benefits			Post Employment	Equity		
	Cash, salary & fees	Short-term incentives (v)	Other cash benefit	Super-annuation	Share based payments	Total	Perfor-mance related
Directors	$	$	$	$	$	$	%
Mr RK Alston (i)	43,250	-	-	3,893	-	47,143	-
Mr FC Wilson (ii)	712,781	-	138,273	37,219	-	888,273	-
Mr RL Eacott	43,000	-	15,000	5,220	-	63,220	-
Mr AC Gilchrist	35,000	-	15,000	4,500	-	54,500	-
Mr JL Matthys	38,000	-	15,000	4,770	-	57,770	-
Mr SL Atkinson	44,376	-	15,000	5,344	-	64,720	-
Mr IR Thompson (iv)	13,497	-	-	1,215	-	14,712	-
Mr T Croot (v)	1,091	-	-	98	-	1,189	-
	930,995	-	198,273	62,259	-	1,191,527	
Other Key Management Personnel							
Mr QH Megson (vi)	299,038	-	-	25,000	-	324,038	-
Mr P Correa	342,875	-	-	25,000	5,556	373,431	-
	641,913	-	-	50,000	5,556	697,469	
Total	1,572,908	-	198,273	112,259	5,556	1,888,996	

Notes

(i) Resigned as a Director on 3 October 2012.

(ii) Other cash benefits includes additional pro-rata fees of $121,923 for assuming the Chairman's duties (which ceased upon appointment of a new Chairman) and the special exertion fees referred to in (iii) below.

(iii) Other cash benefit comprises special exertion fees paid for time spent dealing with minority shareholder actions concerning various requisition notices in November/December 2012 of $15,000 (excluding superannuation).

(iv) Resigned as a Director on 12 July 2012 and is no longer classified as Key Management Personnel.

(v) Resigned as a Director on 12 July 2012.

(vi) No longer classified as Key Management Personnel.

Share Based Payments Granted as Compensation for the Current Financial Year

The Group operated an ownership-based scheme for Executives and employees, the TFS Long Term Incentive Plan. The purpose of the incentive plan is to provide employees with an opportunity to acquire a financial interest in the company, which will align their interests more closely with shareholders, and provide greater incentive for them to focus on the company's long term goals. The Directors consider that the incentive plan will assist in retaining and attracting high quality employees. Further details of the total number of shares issued pursuant to the TFS Long Term Incentive Plan are included in note 37.

No Directors own shares through the incentive plan.

During the financial year the following share-based payment arrangements were in existence for key personnel:

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	10/05/2013	No fixed date	0.21	186,800	Fully vested
					186,800	

During the financial year, no share based payments were made to key management personnel under the TFS Long Term Incentive Plan.

The following table summarises the value of shares granted to key management personnel, exercised or lapsed during the prior year:

	Value of Shares granted at the grant date(i)	Value of Shares exercised at the exercise date	Value of Shares lapsed at the date of lapse
Name	$	$	$
Mr P Correa	39,788	-	-

(i) the value of the shares granted during the prior year is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.

During the financial year, no KMP repaid the non-recourse loan attached to the shares granted under the TFS Long Term Incentive Plan and therefore full rights attaching to share ownership remain restricted.

Key Management Personnel Equity Holdings

30 June 2014	Balance at beginning of year	Received as Compen-sation	Options exercised	Net change other	Balance at end of year
Directors					
Mr P O'Connor(i)	-	-	-	-	-
Mr FC Wilson	45,801,493	-	-	1,000,000	46,801,493
Mr RL Eacott	4,841,201	-	-	-	4,841,201
Mr AC Gilchrist (ii)	2,125,083	-	-	(2,125,083)	-
Mr JL Matthys	3,342,500	-	-	-	3,342,500
Mr SL Atkinson	3,866,668	-	-	(2,300,000)	1,566,668
Other key management persons					
Mr ADJ Stevens (iii)	-	-	-	-	-
Mr P Correa	202,500	-	-	-	202,500
	60,179,445	-	-	(3,425,083)	56,754,362

30 June 2013	Balance at beginning of year	Received as Compen-sation	Options exercised	Net change other	Balance at end of year
Directors					
Mr FC Wilson	45,288,379	-	-	513,114	45,801,493
Mr RL Eacott	4,841,201	-	-	-	4,841,201
Mr AC Gilchrist	2,125,083	-	-	-	2,125,083
Mr JL Matthys	3,342,500	-	-	-	3,342,500
Mr SL Atkinson	3,866,668	-	-	-	3,866,668
Mr RKR Alston (iv)	474,833	-	-	(474,833)	-
Mr IR Thompson (v)	1,123,500	-	-	(1,123,500)	-
Mr T Croot (vi)	2,153,330	-	-	(2,153,330)	-
Other key management persons					
Mr QH Megson(vii)	342,794	-	-	(342,794)	-
Mr P Correa	-	186,800	-	15,700	202,500
	63,558,288	186,800	-	(3,565,643)	60,179,445

Notes

(i) Appointed as a Chairman on 17 September 2013.
(ii) Resigned as a Director on 8 May 2014. Net change other reflects shareholding at time of resignation.
(iii) Appointed as Chief Financial Officer on 21 January 2014
(iv) Resigned as a Director on 3 October 2012.
(v) Resigned as a Director on 12 July 2012 and is no longer classified as Key Management Personnel.
(vi) Resigned as a Director on 12 July 2012.
(vii) No longer classified as Key Management Personnel.

Loans to Key Management Personnel

The Group has provided several of its key management personnel with short-term loans at rates comparable to the average commercial rate. The loans were wholly applied to fund the acquisition of interest in the Group's high net worth investment product on the same terms as the other high net worth investors.

The loans to key management personnel are unsecured.

2014	Balance 30.06.13	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
Other key management – 12 month payment term	-				-	-	
Total	10,699,231	13,350,162	(10,586,976)	-	13,462,417	6,632	

2013	Balance 30.06.12	Amount advanced	Principle repayments	Sale of loan	Balance 30.06.13	Interest charged	No. In group
	$	$	$	$	$	$	
Directors – loans	4,247,768	10,560,132	(31,066)	(4,092,530)	10,684,304	267,870	2
Directors – 12 month payment term	12,981	24,450	(22,504)	-	14,927	-	4
Other key management – loans	48,227	-	(7,170)	(41,057)	-	3,825	1
Other key management – 12 month payment term	-	-	-	-	-	-	
Total	4,308,976	10,584,582	(60,740)	(4,133,587)	10,699,231	271,695	

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

Group provided several of its key management personnel 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.

Directors/Director Related Entities with Loans Above $100,000

2014		Balance 30.06.13	Amount advanced	Principle Repayments	Sale of loan	Balance 30.06.14	Interest Charged
		$	$	$	$	$	$
Frank Wilson	– loans[1]	10,557,250	13,267,650	(10,557,250)	-	13,267,650	-
	– terms	11,249	-	(11,249)	-	-	-
Ronald Eacott	– loans[1]	127,054	2,882	-	-	129,936	6,632
	– terms	404	33,796	(11,457)	-	22,743	-

1. Loans used solely for the purpose of investing in TFS plantations (refer to note 39 (iii))

2013		Balance 30.06.12	Amount advanced	Principle Repayments	Sale of loan	Balance 30.06.13	Interest Charged
		$	$	$	$	$	$
Frank Wilson	– loans	4,123,596	10,557,250	(31,066)	(4,092,530)	10,557,250	261,237
	– terms	11,249	7,762	(7,762)	-	11,249	-
Ronald Eacott	– loans	124,172	2,882	-	-	127,054	6,632
	– terms	392	11,187	(11,175)	-	404	-

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 long-term incentive plan. Ernst & Young was paid $12.6k for remuneration structure advice.

The Remuneration Committee is satisfied that all contact with the company when the remuneration advisory services were provided were arms length from the CEO and other key management personnel; and the Consultants had direct access to the Remuneration Committee. The Board is satisfied that the remuneration recommendations were made by Ernst & Young free from undue influence of the key management personnel about whom the recommendations relate.

END OF REMUNERATION REPORT

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

On behalf of the Directors

Patrick O'Connor
Chairman of the Board

28 August 2014

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 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

Patrick O'Connor
Chairman of the Board

Dated this 28th day of August 2014.

Bentleys
THINKING AHEAD

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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the audit of the financial statements of T.F.S. Corporation Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants

PHILIP RIX FCA
Director

DATED at PERTH this 28th day of August 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the Year Ended 30 June 2014

	NOTE	2014 $'000	2013 $'000
Revenue	2	146,351	122,889
Other income	2	65,870	64,799
Direct plantation and other operating expenses		(24,638)	(16,668)
Raw materials and consumables used		(12,911)	(11,811)
Cost of land sold		(5,311)	(5,455)
Salaries and employees benefits expenses		(20,546)	(17,227)
Sales and marketing expenses		(6,378)	(5,816)
Corporate and other administration expenses		(12,868)	(12,790)
Depreciation and amortisation expenses	3	(6,635)	(6,090)
Finance costs	3	(20,064)	(16,870)
Other	3	5,910	(15,119)
Share of net profits of associates	13	5,879	-
Profit before income tax expense		114,659	79,842
Income tax expense relating to ordinary activities	4	(32,169)	(24,113)
Profit for the period		82,490	55,729
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Transfers within comprehensive income			
Net gain on reclassification of land and buildings previously revalued		-	(58)
Transfer to retained earnings from asset revaluation reserve		-	58
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(24)	-
Net gain on uplift in land of an associated entity		336	
Total comprehensive income for the period		82,802	55,729
Profit attributable to:			
Members of the parent entity		82,490	55,729
Total comprehensive income attributable to:			
Members of the parent entity		82,802	55,729
Earnings per share			
Basic earnings per share (cents per share)	28	28.93	19.93
Diluted earnings per share (cents per share)	28	24.14	19.93

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

as at 30 June 2014

	NOTE	2014 $'000	2013 $'000
CURRENT ASSETS			
Cash and cash equivalents	25(i)	88,581	56,517
Trade and other receivables	5	80,526	106,293
Inventories	6	15,433	23,192
Other financial assets	7	3,239	2,341
TOTAL CURRENT ASSETS		187,779	188,343
NON CURRENT ASSETS			
Trade and other receivables	8	47,100	21,270
Other financial assets	9	7,104	7,886
Property, plant and equipment	10	118,680	93,507
Deferred tax assets	4(d)	15,422	13,531
Biological assets	11	348,105	191,461
Intangible assets	12	87,607	85,512
Investments accounted for using equity method	13	7,934	674
Other	15	11,785	12,877
TOTAL NON-CURRENT ASSETS		643,737	426,718
TOTAL ASSETS		831,516	615,061
CURRENT LIABILITIES			
Trade and other payables	16	63,449	28,628
Financial liabilities	18	16	14
Current tax liabilities	4(d)	13,401	3,333
Provisions	17	2,223	1,685
Unearned income	19	23,215	14,800
TOTAL CURRENT LIABILITIES		102,304	48,460
NON-CURRENT LIABILITIES			
Provisions	20	6,186	5,975
Financial liabilities	21	159,181	164,140
Deferred tax liabilities	4(d)	94,162	68,886
Unearned income	22	3,356	2,968
TOTAL NON-CURRENT LIABILITIES		262,885	241,969
TOTAL LIABILITIES		365,189	290,429
NET ASSETS		466,327	324,632
EQUITY			
Issued capital	23	184,964	117,760
Asset revaluation reserve		8,442	8,106
Foreign currency translation reserve		(24)	-
Option/Warrant reserve		9,083	9,005
Retained earnings		263,862	189,761
TOTAL EQUITY		466,327	324,632

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30/06/2013	Issued Capital $'000	Retained Earnings $'000	Asset Revaluation Reserve $'000	Option / Warrant Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
Balance at 1 July 2012	117,760	134,090	8,048	8,992	-	268,890
Profit for the year	-	55,729	-	-	-	55,729
Transfer to retained earnings from asset revaluation reserve	-	(58)	58	-	-	-
Total comprehensive income for the year	-	55,671	58	-	-	55,729
Transactions with owners, in their capacity as owners, and						
Shares issued during the year	-	-	-	-	-	-
Warrants issued during the year	-	-	-	-	-	-
Employee share options issued during the year	-	-		13	-	13
Dividends recognised for the year	-	-	-	-	-	-
Balance at 30 June 2013	117,760	189,761	8,106	9,005	-	324,632

For the year ended 30/06/2014	NOTE	Issued Capital $'000	Retained Earnings $'000	Asset Revaluation Reserve $'000	Option / Warrant Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
Balance at 1 July 2013		117,760	189,761	8,106	9,005	-	324,632
Profit for the year		-	82,490	-	-	-	82,490
Net gain on uplift in land of an associated entity		-	-	336		-	336
Net exchnage differences on translation of the financial reports of foreign subsidiary		-	-	-	-	(24)	(24)
Total comprehensive income for the year		-	82,490	336	-	(24)	82,802
Transactions with owners, in their capacity as owners, and other transfers							
Shares issued during the year		69,133	-	-	-	-	69,133
Cost of shares issued during the year		(1,929)	-	-	-	-	(1,929)
Employee share options issued during the year		-	-	-	78	-	78
Dividends recognised for the year	27	-	(8,389)	-	-	-	(8,389)
Balance at 30 June 2014		184,964	263,862	8,442	9,083	(24)	466,327

The accompanying notes form part of these financial statements.

Consolidated Statement of Cashflows

for the Year Ended 30 June 2014

	NOTE	2014 $'000	2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations	25 (iv)	104,854	66,065
Payments to suppliers and employees		(86,577)	(67,770)
Payments for land held for resale		(8,754)	(2,673)
Repayment of grower loans		11,465	15,484
Proceeds from sale of loan book		-	22,092
Interest received		3,282	5,968
Dividends received		-	59
Finance charges		(19,141)	(16,248)
Income tax paid		2,111	(1,144)
Net cash generated by operating activities	25(ii)	7,240	21,833
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant & equipment		107	83
Payments for plant & equipment		(18,391)	(13,072)
Payments for investment in own plantation	25 (iv)	(12,966)	(7,983)
Receipts from investments		2,558	442
Payments for investments		(1,279)	-
Receipts from MIS Custodian accounts		2,340	4,221
Payments to MIS Custodian accounts		(3,786)	(2,803)
Payments for land & buildings		(1,602)	(1,313)
Acquisition of subsidiary (net of cash acquired)		(143)	-
Net cash used in investing activities		(33,162)	(20,425)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		(14)	(11)
Proceeds from Borrowings		-	1
Proceeds from issue of shares		64,444	-
Dividends paid		(6,444)	(5)
Net cash provided by financing activities		57,986	(15)
Net increase / (decrease) in cash held		32,064	1,393
Cash at beginning of financial year		56,517	55,124
Cash at end of financial year	25(i)	88,581	56,517

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers TFS Corporation Ltd as an individual parent entity and TFS Corporation Ltd and controlled entities as an economic entity (hereafter referred to as "the economic entity" or "the Group"). TFS Corporation Ltd is a listed public company, incorporated and domiciled in Australia.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards; including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

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) and land and buildings. 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. All amounts are presented in Australian dollar unless otherwise stated.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by TFS Corporation Limited at the end of the reporting period. A controlled entity is any entity over which TFS Corporation Ltd has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with TFS Corporation Ltd to achieve the objectives of TFS Corporation Ltd. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where a controlled entity has entered or left the economic entity during the year, its operating results have been included from the date control was obtained or until the date control ceased. A list of controlled entities is contained in note 31 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities, and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of profit or loss and other comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of profit or loss and other comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of profit or loss and other comprehensive income.

(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.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value except for harvested trees which are measured at fair value less estimated cost to sell at the point of harvest, and subsequently at the lower of this or its Net Realisable Value under AASB 102 Inventories.

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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

(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 on the cost basis.

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.

The cost of fixed assets constructed within the economic entity 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 statement of profit or loss and other comprehensive income 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 economic entity 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the statement of profit or loss and other comprehensive income. 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 (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial valuations by external independent valuers.

The revaluation of freehold land and buildings has taken into account the potential tax on capital gains on sale of assets.

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. Profits are brought to account on the signing of a contract of sale and the majority of the risk and reward of ownership of land has been transferred to the buyer.

(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.

Sandalwood trees are measured at the Director's assessment of their fair value 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 of the sandalwood trees are recognised as income or expenses in the statement of profit or loss and other comprehensive income, determined as the difference between the total fair values of the trees recognised as at the beginning of the year and the total fair values 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. These costs are not included in the determination of the net increment in fair values.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at 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 the principal amount. Interest is recognised as an expense on an accruals basis. 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 in the periods which they are incurred.

(j) Borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

(k) 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 in proportion to the establishment work performed at balance date. In arriving at the proportion of work performed to balance date all activities relating to product development, marketing and distribution, 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 in the period to which they relate.

- Revenue from the sale of goods is recognised when the economic entity 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.

Deferred lease & management fees – Accrued Income receivable

The economic entity sells plantation investments where the investor has the option to pay lease and management fees either (i) annually, (ii) in advance as a prepayment, or (iii) 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 exceeds 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 key assumptions used in calculating the future revenues and their present day value are set out in Note 11.

The movement in the value of the accrued income receivable from period to period is brought to account as revenue from ordinary activities.

Interest Revenue

Interest revenue is recognised when control of a right to receive interest has been attained.

Dividend Revenue

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

(l) 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(k) is deferred and classified as unearned income.

Prepaid lease and management fees from growers are treated as earned based on time (over the term of the project) as this is considered to closely approximate services provided. The unearned portion is classified as unearned income.

(m) 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 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, associates, 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 and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. 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. 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.

(n) 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, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Employee Benefits

Provision is made for the economic entity’s liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries and annual leave, which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for these benefits. 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee Benefits – Share Based Payments

(i) Equity settled transactions

The Group provides benefits to its employees (including Key Management Personnel) 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 Limited (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 income statement 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 Notes 28 and 37).

The Group expenses equity-settled share-based payments such as share and option issues after ascribing a fair value to the shares and/or options 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 Long Term Incentive Plan is recognised with a corresponding increase in equity when the company receives funds from either the employees repaying the loan or upon the loan termination. All shares issued under the plan with non-recourse loans are considered, for accounting purposes, to be options.

(q) Earnings per share

Basic earnings per share is determined by dividing the net result after income tax attributable to members of the company, 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, 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.

(r) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to 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).

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Classification and subsequent measurement

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances valuation techniques are adopted.

Amortised cost is calculated as:

a. The amount at which the financial asset or financial liability is measured at initial recognition;
b. Less principal payments;
c. Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
d. Less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit and loss.

The Group does not designate any interest in subsidiaries, associates or joint ventures as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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 held for hedging purposes, 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.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

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).

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derivative instruments

TFS Corporation Ltd and its controlled entities designate certain derivatives as either:

i. Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

ii. Hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the statement of profit or loss and other comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flows hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the statement of profit or loss and other comprehensive income in the periods when the hedged item will affect profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(s) Investments in Associates

Associate companies are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the company. 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.

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 associate, 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 recognisation 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 in associates are shown at Note 14.

(t) 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.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Comparative Figures

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

(w) 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.

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 associates.

Goodwill is tested for impairment annually 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) 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.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

(y) 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.

(z) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report 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 Estimate and Judgement – 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 records a provision 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.

Key Estimate – 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 of the standing sandalwood trees held by the Group. The carrying value of the sandalwood trees at the reporting date is shown in Note 11. The fair value is calculated as the net present value of expected future cashflows. The estimates used in calculating the expected future cash flows include key assumptions on yields of heartwood, oil content and number of the trees, as well as assumptions as to the future price of sandalwood oil.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 – Land valuation

At year end the directors are required to make an assessment as to the market value of land held. In assessing the market value of land held the directors referred to an independent market appraisal done at the end of the 2012 financial year. 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 activities relating to product development, marketing and distribution, land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account.

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 – 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, or to that specified within the contract. The total provision for land restoration at year end is shown in Notes 20.

Key Judgement – 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 2014 is set out in note 12 and no impairment losses have been recognised to date.

Key Judgement – Plantation re-acquired

On default on payment of a debtor the Group's policy is to extinguish the receivable and to reclaim the underlying security being the sandalwood plantation. This plantation's fair value is recognised on the same valuation principles outlined in note 11 (Biological Assets) of these financial statements. Any difference between the fair value and extinguished receivable is recognised as a gain on settlement of trade debtor in the statement of profit or loss.

Key Judgement – Put option

During the year the Group entered into sales transaction 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 35 (Contingent Liabilities). The Group has considered it unlikely that the option will be exercised and has recognised these sales.

(aa) 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.

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 a fair value hierarchy based on the inputs 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2014, 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.

(bb) 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 2014, 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.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2017	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135– Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments"	1 January 2014	30 June 2015

The financial report was authorised for issue on 28 August 2014 by the Board of directors.

	NOTE	2014 $'000	2013 $'000
NOTE 2: REVENUE			
Sales revenue:			
Revenue from sales and services		116,469	89,586
Revenue from land sales		7,350	10,704
Revenue from product sales		20,475	18,412
Revenue from farming operations		11	24
Interest on grower loans		2,046	4,163
Total sales revenue		146,351	122,889
Other income:			
Dividends received		-	59
Interest received - Other persons/Bank deposits		1,236	1,805
Profit / (Loss) on disposal of plant & equipment		13	(46)
Gain on revaluation of plantations	11	63,301	12,475
Gain on Settlement of Trade Debtor		1,320	50,506
Total other income		65,870	64,799
Total revenue and other income from continuing operations			
- Attributal to members of the parent entity		212,221	187,688
(a) Interest revenue from:			
- directors		7	268
- other persons		2,039	3,895
		2,046	4,163
(b) Dividend revenue from:			
- other corporations		-	59
		-	59

NOTE 3: PROFIT FOR 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 entity:

	2014 $'000	2013 $'000
Finance costs		
- External	20,064	16,870
Total finance costs	20,064	16,870
Depreciation of non-current assets		
- Plant & equipment	5,527	3,834
- Leasehold improvements	18	19
Total depreciation of non-current assets	5,545	3,853

NOTE 3: PROFIT FOR THE YEAR (continued)

	NOTE	2014 $'000	2013 $'000
Amortisation of non current assets			
- Expenditure on land		1,090	2,237
Total amortisation of non current assets		1,090	2,237
Total depreciation & amortisation expenses		6,635	6,090
Operating lease rental			
- Minimum lease payments	26	4,149	3,819
Total operating lease rental		4,149	3,819
Other			
- Unrealised foreign exchange gain / (loss) (i)		5,910	(15,119)
Total other		5,910	(15,119)
Bad debts and provision for impairment expense / (recouped)		(191)	2,873
Provision for impairment of deferred lease and management fees	12	(4,637)	(15,891)
Employee benefits - superannuation		1,445	1,207

(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), the impact on the current year was a loss of $8.24m compared to a gain of $12.65m in FY2013.

NOTE 4: TAXATION

(a) Components of tax expense

	NOTE	2014 $'000	2013 $'000
The components of tax expense comprise:			
Current tax		8,078	4,501
Deferred tax	4(d)	23,828	19,612
(Over) / under provision in respect of prior years		263	-
Income tax expense attributable to entity		32,169	24,113

NOTE 4: TAXATION (continued)

(b) Income Tax Expense

	2014 $'000	2013 $'000
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% (2013 - 30%)	34,398	23,953
Adjusted for tax effect of the following:		
- (Over) / under provision of prior year	263	-
- Non assessable/ rebatable dividend	-	(18)
- Other	(2,492)	178
Income tax expense attributable to entity	32,169	24,113
The applicable weighted average effective tax rates are as follows:	28%	30%

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

	2014			2013		
	Before tax amount $'000	Tax (expense) benefit $'000	Net of tax amount $'000	Before tax amount $'000	Tax (expense) benefit $'000	Net of tax amount $'000
Net gain on uplift in land of an associated entity	480	(144)	336	-	-	-
Loss on reallocation of revalued land to inventory	-	-	-	(82)	24	(58)
	480	(144)	336	(82)	24	(58)

(d) Tax assets and liabilities

	2014 $'000	2013 $'000
CURRENT		
Current tax liabilities	13,401	3,333

NOTE 4: TAXATION (continued)

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	17,105	24,162	-	-	-	41,267
Deferred income recognition	19,063	437	-	-	-	19,500
Plant & equipment - tax depreciation allowance	2,964	1,354	-	-	-	4,318
Revaluation adjustments	3,801	-	-	-	-	3,801
Balance at 30 June 2013	42,933	25,953	-	-	-	68,886
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 and accruals	2,443	(1,325)	-	-	-	1,118
Taxable unearned MIS income	867	3,663	-	-	-	4,530
Unrealised foreign exchange	1,416	4,536				5,952
Transaction costs on equity issue	567	-	(219)	-	-	348
Transaction costs on debt raising	2,115	(532)	-	-	-	1,583
Balance at 30 June 2013	7,408	6,342	(219)	-	-	13,531
Provisions and 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

NOTE 5: TRADE & OTHER RECEIVABLES (CURRENT)

	2014 $'000	2013 $'000
Trade Debtors	65,206	72,080
Provision for impairment of receivables	(316)	(578)
	64,890	71,502
Loans to growers (a)	11,302	32,162
Bonds & deposits	22	7
Prepayments	4,312	2,622
	80,526	106,293

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

	2014 $'000	2013 $'000
Director and director-related entities		
- Director related	1,818	10,684
	1,818	10,684

(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.

(c) Ageing of past due but not impaired	2014 $'000	2013 $'000
60 - 90 days	1,013	873
90 - 120+ days	10,058	1,593
Total	11,071	2,466

(d) Movement in the provision for impairment of receivables (current)	2014 $'000	2013 $'000
Balance at the beginning of the year	578	451
Impairment losses recognised on receivables	66	161
Amounts (written off) as uncollectible	(38)	-
Amounts recovered during the year	(120)	(27)
Impairment losses reversed	(170)	(7)
Balance at the end of the year	316	578

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 sandalwood tree lots that relate 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 market value of the grower tree lots is exactly the same as for Group owned trees. As referred to in Note 1(g), as required under Australian Accounting Standards the directors make an estimate as to the market value of the standing sandalwood trees held by the Group. The market value is calculated as the net present value of expected future cashflows. The estimates used in calculating the expected future cashflows are set out in Note 11.

NOTE 5: TRADE & OTHER RECEIVABLES (CURRENT) (continued)

(e) Credit Risk
Included within the balance of trade receivables are three wholesale institutional debtors amounting to $69.57m. Management of this credit risk is set out in Note 33 (a).

	2014	2013
(f) Ageing of impaired trade receivables (current)	No.	No.
60 - 90 days	-	-
90 - 120 days	22	29
Total	22	29

	2014 $'000	2013 $'000
NOTE 6: INVENTORIES (CURRENT)		
At cost:		
Land held for resale	7,718	15,431
Finished goods	5,896	6,066
Work in progress	14	129
Seedlings at cost	72	314
Seed stock	680	1,033
Harvested trees	5	-
Raw materials	1,113	304
Less: Provision for obsolete stock	(65)	(85)
	15,433	23,192
NOTE 7: OTHER FINANCIAL ASSETS (CURRENT)		
Cash Deposit - MIS Custodian Accounts	3,239	2,341
	3,239	2,341
(a) Cash Deposit - MIS Custodian Accounts consists of the following:		
50% of establishment fees on new MIS sales for the year.		
TFS Sandalwood Project 2012	-	8
TFS Sandalwood Project 2013	40	2,333
TFS Sandalwood Project 2014	3,199	-
	3,239	2,341

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.

	2014 $'000	2013 $'000
NOTE 8: TRADE & OTHER RECEIVABLES (NON-CURRENT)		
Loans to growers (a)	38,557	18,820
Less: Provision for impairment of receivables	(47)	(20)
	38,510	18,800
Other receivable (b)	8,590	2,470
Total receivables (non current)	47,100	21,270
(a) Loans to growers are due for repayment as follows		
- Later than one year but no later than five years	22,047	14,619
- Due later than five years	16,510	4,201
	38,557	18,820

(b) Included in Other non-current receivable is $4.2m (2013: $2.5m) 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 34 regarding the funding commitment).

	2014 $'000	2013 $'000
(c) Aggregate amounts payable by related parties included in the loans to growers:		
Director & director related entities		
- Director related	11,579	-
	11,579	-
(d) Ageing of past due but not impaired		
60 - 90 days	-	-
90 - 120 days	-	-
120+ days	-	-
Total	-	-
(e) Movement in the provision for impairment of receivables (Non current)		
Balance at the beginning of the year	20	-
Impairment losses recognised on receivables	32	20
Amounts written off as uncollectible	-	-
Amounts recovered during the year	-	-
Impairment losses reversed	(5)	-
Balance at the end of the year	47	20

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 sandalwood tree lots that relate to the debtor balance. At balance date $368,230 (2013: $2,056,405) 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.

NOTE 8: TRADE & OTHER RECEIVABLES (NON-CURRENT) (continued)

The basis for estimating the market value of the grower tree lots is exactly the same as for Group owned trees. Refer to in Note 1(g), as required under the Australian Accounting Standards the directors make an estimate as to the fair value of the standing sandalwood trees held by the Group. The fair value is calculated as the net present value of expected future cashflows. The estimates used in calculating the expected future cashflows are set out in Note 11.

	2014	2013
(f) Ageing of impaired trade receivables (non current)	No.	No.
60 - 90 days	-	-
90 - 120+ days	6	66
Total	6	66

	2014 $'000	2013 $'000
NOTE 9: OTHER FINANCIAL ASSETS (NON-CURRENT)		
Cash Deposit - First Loss Account (a)	2,965	4,029
Cash Deposit - Bank Guarantee Facility	2,452	2,718
Cash Deposit - MIS Custodian Accounts (b)	1,687	1,139
	7,104	7,886

(a) See note 35: Contingent Liabilities

(b) Cash Deposit - MIS Custodian Accounts consists of the following:		
TFS Sandalwood Project 2012 - Upfront Annual Fee and Rent	775	760
TFS Sandalwood Project 2013 - Upfront Annual Fee and Rent	389	379
TFS Sandalwood Project 2014 - Upfront Annual Fee and Rent	523	-
	1,687	1,139

These 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.

	2014 $'000	2013 $'000
NOTE 10: PROPERTY, PLANT & EQUIPMENT		
Plant & Equipment - at cost	73,218	55,063
Less: Accumulated depreciation	(21,548)	(16,327)
Total plant & equipment	51,670	38,736
Land & Buildings at fair value (a)	68,234	55,476
Land & Buildings at cost	-	-
Less: Accumulated depreciation	(1,224)	(705)
Total property	67,010	54,771
Total property, plant & equipment	118,680	93,507
(a) Movements in carrying amounts		
Movements in the carrying amount for each class of property, plant & equipment between the beginning and the end of the current financial period.		
Land & Building		
Carrying amount at beginning of the year	54,771	40,602
Additions	1,602	5
Transfers from inventory	11,156	14,303
Depreciation expense	(519)	(139)
Carrying amount at the end of the year	67,010	54,771
Leasehold Improvements		
Carrying amount at beginning of the year	143	159
Additions	52	3
Depreciation expense	(18)	(19)
Carrying amount at the end of the year	177	143
Other plant & equipment		
Carrying amount at beginning of the year	38,593	28,040
Additions	18,338	14,487
Disposals	(93)	(240)
Depreciation expense	(5,345)	(3,694)
Carrying amount at the end of the year	51,493	38,593
(b) If land & buildings were stated at historical cost, amounts would be as follows:		
Cost	54,950	43,191
Accumulated depreciation	(519)	(139)
	54,431	43,052
(c) Carrying amount of plant & equipment in the course of construction	14	94

NOTE 10: PROPERTY, PLANT & EQUIPMENT (continued)

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 2014 and 30 June 2013 were based on the directors' assessment of the property's market value with reference to market appraisal 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.

The fair value of the freehold land and buildings were determined based on the market comparable approach that reflects recent transaction prices for similar properties. There has been no change to the valuation technique during the year

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 2014 are as follows:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Fair Value as at 30/06/2014 $'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 lodge 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	2014 $'000	2013 $'000
NOTE 11: BIOLOGICAL ASSETS			
Sandalwood plantation at cost:			
Opening balance		127,195	33,906
Additions		87,573	7,983
Plantation re-acquired		6,909	85,306
Less: Harvested trees transferred to inventory		(409)	-
Closing Balance		221,268	127,195
Add: Fair value adjustment to sandalwood plantation:			
Opening balance		64,266	51,791
Increments / (Decrements)	2	63,301	12,475
Less: Harvested trees transferred to inventory		(730)	-
Closing balance		126,837	64,266
Total biological assets		348,105	191,461

NOTE 11: BIOLOGICAL ASSETS (continued)

(i) Additions during the year of $87.57m include 354ha of mature sandalwood trees acquired from six existing growers for $39.67m (exclusive of GST) in July 2013. $33.17m of the proceeds due to the growers was offset against amounts the growers owed to the Group (included in Current Trade and Other Receivables at 30 June 2013).

As part of this transaction, the Group acquired sandalwood trees in which the Group already had an indirect interest, due to the election by growers to defer lease and management fees. Accordingly, this asset ($10.53m) has been transferred from Accrued Income Receivable to Biological Assets and re-valued to fair value (Note 12: Intangible Assets).

Also included in additions is the acquisition of 364ha of established plantations for $28.59m (exclusive of GST) from an institutional investor. This transaction was completed on 30 June 2014.

	2014	2013
(a) Physical quantity of sandalwood trees owned	No.	No.
- Number of sandalwood trees	1,015,485	601,129

(b) Nature of the Asset

- The sandalwood plantations are situated at various locations in the northern parts of Australia, with 1,429.79ha (2013: 684.12ha) in Western Australia, 602.60ha (2013: 600.56ha) in Queensland and 276.89ha (2013: 61.78ha) in the Northern Territory.
- The net market value of the sandalwood trees has been determined in accordance with a directors' valuation.

(c) Measurement of fair values

(i) Fair value hierarchy

The fair value measurements for biological assets of $348.11m (2013: $191.46m) have been categorised as Level 3 fair values based on the inputs to the valuation techniques used (refer to Note 1(aa)).

(ii) Level 3 fair values

The following information shows the valuation techniques used in measuring fair values, 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) The price of sandalwood oil is determined by market prices, being $2,500 USD/kg (2013: $2,500 USD/kg) and not inflated.

(ii) US Dollar exchange rate used is constant through the valuation model at 1.061 AUD (2013: 1.094 AUD). This gave rise to an unrealised foreign exchange loss of $8.24m in FY14 compared to a gain of $12.65m in FY13 (refer to Note 3 (i))

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 (2013: 15.7 years).

(ii) Forecast of heartwood production at weighted average of 21.3kg (2013: 21.9kg) per sandalwood tree at a 25% moisture content. The forecast heartwood production of each plantation vintage ranges from 4.9kg to 25.6kg per sandalwood tree.

(iii) Projected oil content from the heartwood of 3.7% (2013: 3.7%) from forecast heartwood at a moisture content of 25%.

NOTE 11: BIOLOGICAL ASSETS (continued)

(iv) The costs consist of harvesting, processing and marketing and sales cost.
- Harvesting and processing (oil extraction) costs, estimated at $16,000 (2013: $16,000) per hectare and $207 (2013: $207) per litre of oil; and
- Marketing and sales costs, estimated at 5% of proceeds.
- Harvesting and processing (oil extraction cost) are held constant in real terms with an annual inflation rate of 3.0% (2013: 3.0%).

(v) The pre-tax average real rate at which the net cash flows have been discounted range between:
- 14% (2013: 14%) for trees aged 0 to 5 years;
- 13% (2013: 13%) for trees aged 6 to 10 years; and
- 12% (2013: 12%) for trees aged 11 years to harvest age.

(vi) Cash flows exclude income taxes.

(d) 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 manages 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.

	2014 $'000	2013 $'000
NOTE 12: INTANGIBLE ASSETS		
Goodwill:		
Cost	20,205	20,034
Accumulated impaired losses	-	-
Net carrying value	20,205	20,034
Supply agreements:		
Cost	478	478
Accumulated impaired losses	-	-
Net carrying value	478	478
Accrued Income Receivable		
Total accrued income receivable	88,825	82,264
Accumulated impaired losses	(21,901)	(17,264)
Net carrying value	66,924	65,000
Total intangibles	87,607	85,512

NOTE 12: INTANGIBLE ASSETS (continued)

Economic Entity:	Accrued Income Receivable $'000	Goodwill $'000	Supply Agreement $'000
Balance at beginning of the year	63,544	20,034	478
Additions: Recognition of deferred fees	18,928	-	-
Disposals	(1,581)	-	-
Impairment losses	(15,891)	-	-
Year ended 30 June 2013	65,000	20,034	478
Balance at beginning of the year	65,000	20,034	478
Additions: Recognition of deferred fees	17,091	-	-
Additions through acquisition	-	171	-
Deferred fees on trees acquired by the Group transfered to Biological Assets	(10,530)		
Impairment losses	(4,637)	-	-
Closing value at 30 June 2014	66,924	20,205	478

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. Goodwill is considered to have an indefinite life.

Goodwill

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

	2014 $'000	2013 $'000
Sandalwood products segment	20,205	20,034
Total	20,205	20,034

The recoverable amount of each 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 with the period extending beyond one year extrapolated using an estimated growth rate. The cash flows are discounted using the weighted average cost of capital for the Group at the beginning of the budget period.

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

	2014		2013	
	Growth rate	Discount rate	Growth rate	Discount rate
Sandalwood products segment	2.50%	11.00%	2.50%	11.00%

Management has based the value-in-use calculations on budgets for each reporting 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 pre-tax and are adjusted to incorporate risks associated with particular segments.

NOTE 12: INTANGIBLE ASSETS (continued)

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 reasonable 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.

	NOTE	2014 $'000	2013 $'000
NOTE 13: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD			
Opening balance	14(a)	674	674
Investment		1,615	-
Disposal		(234)	-
Share of net profit for period		5,879	-
Associated companies		7,934	674
Equity accounted profits of associates are broken down as follows:			
Share of associate's profit before income tax expense		8,396	35
Share of associate's income tax expense		(2,517)	(35)
Share of associate's profit after income tax		5,879	-

NOTE 14: ASSOCIATED COMPANIES

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

Name	Principal Activities	Country of Incorp.	Shares	Ownership Interest 2014 %	Ownership Interest 2013 %	Carry amount of Investment 2014 $'000	Carry amount of Investment 2013 $'000
Northern Development Corporation Ltd	Land Development	Australia	Ord	50	50	581	440
Gulf Natural Supply Co.	Sandalwood Oil Distributor	UAE	Ord	-	49	-	234
Santalis Pharmaceutical Inc.	Pharmaceuticals	USA	Ord	50	50	-	-
Un-incorporated contractual arrangement	Sandalwood Plantation Owner	Note (i)	Note (i)	20	-	7,353	-
						7,934	674

(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 such its deemed as an investment in an associated entity. The contractual arrangement has been established in Australia.

During the year the Group acquired the remaining 51% of Gulf Natural Supply Co and as a result it is now classified as a subsidiary and consolidated into the Group.

NOTE 14: ASSOCIATED COMPANIES (continued)

(b) Summarised financial information in respect of the Group's material associate as well as the aggregate information of associates that are not material is set out below.

	2014 $'000	2013 $'000
Un-incorporated contractual arrangement with Jarh Tree Co Pty Ltd		
Current assets	-	-
Non current assets - Biological asset	9,956	-
Total assets	9,956	-
Current liabilities	-	-
Non current liabilities	2,603	-
Total liabilities	2,603	-
Net assets	7,353	
Revenues	8,196	-
Profit after income tax of associate	5,737	-

Included in the share of associates 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).

	2014 $'000	2013 $'000
Aggregate information of associates that are not individualy material		
Current assets	504	1,339
Non current assets	484	522
Total assets	988	1,861
Current liabilities	258	983
Non current liabilities	263	363
Total liabilities	521	1,346
Net assets	467	515
Revenues	4,144	6,746
Profit after income tax of associates	142	-
The Group's portion of net assets	467	515
Goodwill	114	114
Other - foreigh exchange movement	-	45
Carrying amount of the Group's interest in these associates	581	674

	2014 $'000	2013 $'000
NOTE 15: OTHER ASSETS		
Water rights	1	1
	1	1
Land preparation costs	10,945	10,945
Less: Provision for amortisation	(3,064)	(2,348)
	7,881	8,597
Lease land restoration costs	5,781	5,799
Less: Accumulated amortisation	(1,878)	(1,520)
	3,903	4,279
Total Other Assets	11,785	12,877

NOTE 16: TRADE AND OTHER PAYABLES (CURRENT)

	2014 $'000	2013 $'000
Unsecured:		
Trade Creditors	48,323	9,958
Goods & services tax payable	1,415	3,570
Dividends Payable	71	59
Other creditors and accrued expenses	13,640	15,041
	63,449	28,628
Aggregate amounts payable to related entities:		
Director and related entities	-	-

(a) Terms 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
(iii) Details of the terms & conditions of related party payables are set out in Note 39.

NOTE 17: PROVISIONS (CURRENT)

	2014 $'000	2013 $'000
Employee entitlements	2,223	1,685
	2,223	1,685

	No.	No.
Number of permanent employees at balance date	169	133

(a) Movements in carrying amounts

	2014 $'000	2013 $'000
Employee entitlements		
Opening balance at beginning of the year	1,685	1,470
Additional provisions	1,433	1,184
Amounts used	(895)	(969)
Balance at the end of the year	2,223	1,685

NOTE 17: PROVISIONS (CURRENT) (continued)

Provision for Employee entitlements
A provision has been recognised for employee entitlements relating to annual leave and long service leave. In calculating he 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	2014 $'000	2013 $'000
NOTE 18: FINANCIAL LIABILITIES (CURRENT)			
Secured:			
Hire purchase liability	26	16	14
		16	14
NOTE 19: UNEARNED INCOME (CURRENT)			
Unearned income		23,215	14,800
		23,215	14,800

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 20: PROVISIONS (NON CURRENT)

Lease land restoration		6,186	5,975
		6,186	5,975
(a) Movements in carrying amounts			
Lease land restoration			
Opening balance at beginning of the year		5,975	-
Additional provisions		162	5,799
Finance charges		49	176
Provision utilise		-	-
Balance at the end of the year		6,186	5,975

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.

NOTE 21: FINANCIAL LIABILITIES (NON CURRENT)

Secured:			
Hire purchase liability	26	9	25
11% Senior Secured Notes (a)		159,172	164,115
		159,181	164,140

NOTE 21: FINANCIAL LIABILITIES (NON CURRENT) (continued)

(a) US$150 million 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 AU dollars using an exchange rate of 1.061 (2013: 1.094). 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.

	2014 $'000	2013 $'000
NOTE 22: UNEARNED INCOME (NON CURRENT)		
Unearned Income	3,356	2,968
	3,356	2,968

Unearned income represents 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 later than 12 months after balance date.

NOTE 23 ISSUED CAPITAL

	2014 $'000	2013 $'000
Issued fully paid ordinary shares 324,157,408 (30.06.13: 279,621,829)	184,964	117,760

	2014 No.	2013 No.
(a) Ordinary shares		
At beginning of the period	279,621,829	279,621,829
Shares issued during the year	-	-
- 8 November 2013 (i)	2,535,579	-
- 27 May 2014 (ii)	42,000,000	-
At reporting date	324,157,408	279,621,829

Shares issued during the period:
(i) On 8 November 2013 the company issued 2,535,579 shares under its dividend reinvestment plan for $0.762. per share.
(ii) On 27 May 2014 the company issued 42,000,000 shares under its capital raise plan for $1.600 per share.

(b) 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 includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

NOTE 23: ISSUED CAPITAL (continued)

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 year. The gearing ratio's for the current and past year ends are as follows

	NOTE	2014 $'000	2013 $'000
Total borrowings	18,21	159,197	164,154
Less: Cash and cash equivalents	25(i)	(88,581)	(56,517)
Net debt		70,616	107,637
Total equity		466,327	324,632
Total capital		536,943	432,269
Gearing ratio		13.15%	24.90%

NOTE 24: RESERVES

Asset revaluation reserve
The assets revaluation reserve records revaluations of non-current assets. Under certain circumstances dividends can be declared from this reserve.

Option/Warrant reserve
The option reserve records amounts received on issue of options in the company.
As part of securing the US$150m Note raise the Group issued 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.

NOTE 25: CASH FLOW INFORMATION

	2014 $'000	2013 $'000
(i) Reconciliation of cash		
Cash balance comprises:		
Cash at bank	88,576	56,513
Cash on hand	5	4
Cash balance as per balance sheet	88,581	56,517
Less: Overdraft	-	-
Cash balance as per cash flow statement	88,581	56,517
(ii) Reconciliation of operating profit after income tax to the net cash flow provided by operating activities.		
Operating profit / (loss) after income tax	82,490	55,729
Cash flows excluded from profit attributable to operating activities:		
Depreciation and amortisation	6,635	6,090
Reclassification of land (from) / to inventory	(11,156)	(14,303)
Share of net profits from associates	(5,879)	-
Tax adjustment taken direct to equity/ARR	826	-
Unearned Forex Loss relating to Investments/Borrowings	(4,967)	17,664
Share based payments - ESAS Options	79	13
Net cash provided by operating activities before change in assets and liabilities	68,028	65,193
Changes in operating assets and liabilities:		
Provision for taxation increase / (decrease)	10,068	3,138
Provision for impairment increase / (decrease)	(235)	2,872
Provision for deferred taxation increase / (decrease)	25,276	25,954
Future taxation benefit (increase) / decrease	(1,892)	(6,123)
(Profit) / loss on sale of fixed assets	(13)	46
(Profit) / loss on sale of plantation	-	-
(Profit) / loss on sale of investments	(994)	85
(Increase) / decrease in trade debtors	(8,615)	(41,007)
(Increase) / decrease in prepayments	(1,690)	(873)
(Increase) / decrease in accrued income receivable	(12,453)	(1,456)
(Increase) / decrease in grower loans	(27,958)	2,870
(Increase) / decrease in inventories	8,898	15,707
(Increase) / decrease in sandalwood tree market value	(63,301)	(12,475)
(Increase) / decrease in gain on settlement of trade debtor	(1,320)	(50,506)
(Increase) / decrease in foreign exchange / swap contracts	-	-
Increase / (decrease) in trade creditors and provisions	4,637	5,963
Increase / (decrease) in unearned income	8,804	12,445
Net cash flow from operating activities	7,240	21,833

NOTE 25: CASH FLOW INFORMATION (continued)

	2014 $'000	2013 $'000
(iii) Loan Facilities		
At balance date the following financing facilities had been negotiated and were available:		
Total facilities		
- 11% Senior Secured Notes	159,172	164,115
Facilities used at balance date		
- 11% Senior Secured Notes	159,172	164,115
Unused credit facilities	-	-

(iv) Non-cash operating and investing activities

- Dividend reinvestment plan (DRP).
  2,535,579 (2013: Nil) shares were issued to those shareholders who participated in the Group's dividend reinvestment plan. This equated to a reduced dividend payout of $1.93m (2013: Nil).

- 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 $39.42m (2013: $34.71m) which has been eliminated from receipts from operations.

- Investment in own plantation
  During the year the Group acquired mature sandalwood trees from existing growers and re-acquired mature sandalwood trees from growers who had defaulted on their loan repayments and part of the proceeds ($40.08m) was offset against amounts the growers owed to the Group (included in Current Trade and Other Receivables).

NOTE 26: CAPITAL AND LEASING COMMITMENTS / ENTITLEMENTS

	2014 $'000	2013 $'000
Operating leases		
Plantation land lease (non-cancellable) (a)		
Due not later than one year	4,117	4,018
Later than one year but not later than two years	4,117	3,762
Later than two years but not later than five years	12,295	11,285
Later than five years	21,529	22,528
	42,058	41,593

(a) These commitments represent payments due for leased land under a non-cancellable operating lease.
The leases have terms of 15 - 16 years.
The land can be used to plant and tend any agricultural or horticultural 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.

NOTE 26: CAPITAL AND LEASE COMMITMENTS/ ENTITLEMENTS (continued)

	2014 $'000	2013 $'000
Finance leases		
Payable:		
- not later than 1 year	18	17
- later than 1 year but not later than five years	9	27
- later than five years	-	-
Minimum lease payments	27	44
Less: future finance charges	(2)	(5)
Present value of minimum lease payments	25	39
Plantation land restoration commitment		
Payable:		
- not later than 1 year	24	53
- later than 1 year but not later than five years	94	94
- later than five years	100	124
	218	271
Committed lease payments receivable		
Receivable:		
- not later than 1 year	158	155
- later than 1 year but not later than five years	461	561
- later than five years	22	86
	641	802

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

	2014 $'000	2013 $'000
Capital Expenditure Commitments		
Capital expenditure commitments contracted for:		
- Land	6,386	-
	6,386	-

NOTE 27: DIVIDENDS

	2014 $'000	2013 $'000
Distributions paid		
Final fully franked dividend of 3 cents per share paid 8 November 2013.	8,389	-
	8,389	-
(a) Balance of franking account at year end adjusted for franking credits arising from the payment of the provision for income tax	22,707	25,312
	22,707	25,312

	NOTE	2014 $'000	2013 $'000
NOTE 28: EARNINGS PER SHARE			
Earnings (after tax) used in calculating basic and diluted earnings per share.		82,490	55,729
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share ('000's).		285,160	279,622
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share ('000's).		341,660	279,622
NOTE 29: AUDITORS' REMUNERATION			
Remuneration of the auditor of the parent entity for:			
- auditing or reviewing the financial report		412	396
- other services		-	9
		412	405
NOTE 30: GAIN ON SETTLEMENT OF TRADE DEBTOR			
Defaulted debt (2013: 580 hectares)			
- Plantation establishment fee (Excluding GST)		-	34,800
		-	34,800
Fair value of assets taken back			
- Plantation	11	-	85,306
		-	85,306
Gain realised on settlement of trade debtor	2	-	50,506

NOTE 31: CONTROLLED ENTITIES

	Country of Incorporation	Percentage (%) owned 2014	2013
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	49

NOTE 31: CONTROLLED ENTITIES (continued)

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:

	2014 $'000	2013 $'000
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Revenue	138,511	118,199
Other income	63,823	64,179
Direct plantation and other operating expenses	(24,607)	(16,660)
Raw materials and consumables used	(12,911)	(11,811)
Salaries and employees benefits expenses	(20,314)	(17,227)
Sales and marketing expenses	(6,068)	(5,477)
Corporate and other administration expenses	(10,759)	(8,290)
Depreciation and amortisation expenses	(6,204)	(6,025)
Finance costs	(19,784)	(16,495)
Other	5,910	(15,119)
Share of net profits of associates	5,737	-
Profit before income tax expense	113,334	85,274
Income tax expense relating to ordinary activities	(35,410)	(25,741)
Profit for the period	77,924	59,533
Other comprehensive income		
Transfers within comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net gain on uplift in land of an associated entity	336	-
Total comprehensive income for the period	78,260	59,533

NOTE 31: CONTROLLED ENTITIES (continued)

	2014 $'000	2013 $'000
STATEMENT OF FINANCIAL POSITION		
CURRENT ASSETS		
Cash and cash equivalents	76,229	45,399
Trade and other receivables	63,495	62,621
Inventories	7,715	7,761
TOTAL CURRENT ASSETS	147,439	115,781
NON CURRENT ASSETS		
Trade and other receivables	143,702	142,673
Other financial assets	7,731	7,493
Property, plant and equipment	56,077	43,163
Deferred tax assets	13,885	12,547
Biological assets	348,105	191,461
Intangible assets	23,588	20,861
Investments accounted for using equity method	7,353	-
Other	8,063	12,877
TOTAL NON-CURRENT ASSETS	608,504	431,075
TOTAL ASSETS	755,943	546,856
CURRENT LIABILITIES		
Trade and other payables	62,983	28,224
Financial liabilities	16	14
Current tax liabilities	13,401	3,333
Provisions	2,186	1,685
Unearned income	21,891	12,641
TOTAL CURRENT LIABILITIES	100,477	45,897
NON-CURRENT LIABILITIES		
Provisions	204	5,975
Financial liabilities	159,181	164,140
Deferred tax liabilities	71,743	46,226
Unearned income	250	131
TOTAL NON-CURRENT LIABILITIES	231,378	216,472
TOTAL LIABILITIES	331,855	262,369
NET ASSETS	424,088	284,487
EQUITY		
Issued capital	184,964	117,760
Asset revaluation reserve	819	482
Option/Warrant reserve	9,083	9,005
Retained earnings	229,222	157,240
TOTAL EQUITY	424,088	284,487

NOTE 32: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

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

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

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

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

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.

(i) *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.

NOTE 32: OPERATING SEGMENTS (continued)

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.

NOTE 32: OPERATING SEGMENTS (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. All operations are conducted in Australia.

Operating Segments	**Plantation Management**		**Finance**		**Sandalwood Products**		**Agriculture**		**Consolidated Group**	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**
Revenue (all relate to external sales)										
Establishment Fees	80,577	72,459	-	-	-	-	-	-	80,577	72,459
Land Sales	7,350	10,705	-	-	-	-	-	-	7,350	10,705
Lease & management Fees	17,958	11,367	-	-	-	-	-	-	17,958	11,367
Accrued income recognition	12,454	3,037	-	-	-	-	-	-	12,454	3,037
Product sales	-	-	-	-	20,475	18,412	-	-	20,475	18,412
Sales of agriculture produce	-	-	-	-	-	-	11	24	11	24
Interest - External	1,118	1,617	2,164	4,351	-	-	-	-	3,282	5,968
Interest - Inter segment	53	68	-	-	-	-	-	-	53	68
Gain on revaluation of plantation	63,301	12,475	-	-	-	-	-	-	63,301	12,475
Gain on Settlement of Trade Debtor	1,320	50,506	-	-	-	-	-	-	1,320	50,506
Other - External	4,407	2,735	1,086	-	-	-	-	-	5,493	2,735
Other - Internal	1,259	-	-	-	679	579	-	-	1,938	579
Total segment revenue	189,797	164,969	3,250	4,351	21,154	18,991	11	24	214,212	188,335
Reconciliation of segment revenue to group revenue										
Inter segment revenue									(1,991)	(647)
Unallocated revenue									-	-
Total group revenue from ordinary activities									212,221	187,688

NOTE 32: OPERATING SEGMENTS (continued)

Operating Segments	Plantation Management		Finance		Sandalwood Products		Agriculture		Consolidated Group	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Result										
Earnings before interest, tax, dep'n and amort'n (EBITDA)	136,865	98,202	1,141	216	4,096	3,210	11	16	142,113	101,644
Reconciliation of segment EBITDA to group EBITDA.										
Inter segment revenue									(1,991)	(647)
Unallocated revenue										
Total group EBITDA									140,122	100,997
Segment result before income tax	106,143	77,922	1,193	58	3,424	2,493	11	16	110,771	80,489
Reconciliation of segment result to group net profit before tax.										
Inter segment revenue									(1,991)	(647)
Amounts not included in segment results but reviewed by board.										
Unallocated expenses									-	-
Share of net profits of associates	5,879	64	-	-	-	(64)	-	-	5,879	-
Net profit before tax from continued operations									114,659	79,842

NOTE 32: OPERATING SEGMENTS (continued)

Operating Segments	Plantation Management		Finance		Sandalwood Products		Agriculture		Consolidated Group	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Segment Assets										
Segment Assets	799,662	587,958	53,560	55,609	33,773	32,736	-	-	886,995	676,303
Segment increases for the period:										
Capital expenditure	12,229	9,980							12,229	9,980
Acquisitions	7,052	3,762			712	754			7,764	4,516
	19,281	13,742	-	-	712	754	-	-	19,993	14,496
Included in segment assets are:										
Equity accounted associates and joint ventures	7,934	440			-	234			7,934	674
Reconciliation of segment assets to group assets										
Inter-segment eliminations									(55,479)	(61,242)
Unallocated assets									-	-
Total group assets from continuing operations									831,516	615,061
Segment Liabilities										
Segment Liabilities	363,737	288,754	39,272	42,523	8,575	11,137	-	1	411,584	342,415
Reconciliation of segment liabilities to group liabilities										
Inter-segment eliminations									(46,395)	(51,986)
Unallocated liabilities									-	-
Total group liabilities from continuing operations									365,189	290,429

The economic entity's operations were all conducted in Australia and accordingly a segmentation of the operations along geographical boundaries is not applicable.

NOTE 33: 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, leases and derivatives.

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	2014 $'000	2013 $'000
Financial assets:			
Cash and cash equivalents	25(i)	88,581	56,517
Held to maturity financial assets			
- Cash Deposit - First Loss, Bank Guarantee,			
Escrow and Custodian Accounts	7,9	10,343	10,227
Loans and receivables		127,626	127,562
Total Financial Assets		226,550	194,306
Financial Liabilities:			
Financial liabilities at amortised cost			
- Trade and other payables		63,474	28,667
- Borrowings	21	159,172	164,115
Total Financial Liabilities		222,646	192,782

(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.

NOTE 33: FINANCIAL RISK MANAGEMENT (continued)

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.

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$150 million Senior Secured Notes, maturing 2018 and semi-annual US dollar interest payable. In addition, the Group is exposed to the fluctuations in foreign currencies in relation to its valuation of biological assets and the supply contracts for the sale of sandalwood oil and related products. The Group is mainly exposed to US dollars.

The Group aims to reduce and manage the foreign exchange risk on the US$150 million Senior Secured Notes and US dollar interest through natural hedges by generating US dollar denominated income and holding US dollar denominated assets. 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
- if any defaults are recognised the company can claim on its security by reclaiming the underlying sandalwood lot.

NOTE 33: FINANCIAL RISK MANAGEMENT (continued)

The credit risk for counterparties included in the trade and other receivables at 30 June 2014 is detailed below:

	2014 $'000	2013 $'000
Trade and other receivables		
AA rated counterparties	-	-
Counterparties not rated	127,626	127,562
	127,626	127,562

The credit risk related to balances with banks and other financial institutions is managed in accordance with Board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

	2014 $'000	2013 $'000
Cash and cash equivalents		
AA rated counterparties	88,581	56,517
Counterparties not rated	-	-
	88,581	56,517
Held to maturity security		
AA rated counterparties	5,418	6,747
Counterparties not rated	4,925	3,480
	10,343	10,227

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 operations carried on by its sandalwood products division and in relation to is valuation of biological assets and specifically the Group owned sandalwood plantations. The Group does not anticipate that the sandalwood album or spicatum price will decline significantly in the foreseeable future.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel technology and infrastructure, and from external factors other than credit , market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

(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.

NOTE 33: FINANCIAL RISK MANAGEMENT (continued)

(ii) Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period maturity, as well as management's expectations of the settlement period for all other financial instruments. As such the amounts may not reconcile to the balance sheet.

Consolidated Group

2014		Maturing in				
Financial Instruments	Type of instrument	1 year or less	Over 1 to 5 years	More than 5 years	Total	Weighted average interest rate
		$'000	$'000	$'000	$'000	%
(i) Financial assets						
Cash	Floating interest	82,108	-	-	82,108	1.51%
Cash - Deposit**	Fixed interest	6,473	5,418	-	11,891	3.19%
Cash - Deposits**	Floating interest	3,239	-	1,686	4,925	2.40%
Loans to growers	Fixed Interest	11,302	22,047	16,463	49,812	10.40%
Trade debtors	Interest free	64,890	-	-	64,890	N/A
Trade debtors - sundry	Interest free	4,334	8,590	-	12,924	N/A
Total financial assets		**172,346**	**36,055**	**18,149**	**226,550**	
(ii) Financial liabilities						
Secured Notes	Fixed interest	-	159,172	-	159,172	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%
Total financial liabilities		**63,465**	**159,181**	**-**	**222,646**	
Net position		**108,881**	**(123,126)**	**18,149**	**3,904**	

NOTE 33: FINANCIAL RISK MANAGEMENT (continued)

2013 Financial Instruments	Type of instrument	Maturing in 1 year or less	Maturing in Over 1 to 5 years	Maturing in More than 5 years	Total	Weighted average interest rate
		$'000	$'000	$'000	$'000	%
(i) Financial assets						
Cash	Floating interest	50,263	-	-	50,263	1.49%
Cash - Deposit**	Fixed interest	6,254	6,747	-	13,001	3.74%
Cash - Deposits**	Floating interest	2,341	-	1,139	3,480	2.25%
Loans to growers	Fixed Interest	32,162	14,619	4,181	50,962	10.63%
Trade debtors	Interest free	71,502	-	-	71,502	N/A
Trade debtors - sundry	Interest free	2,629	2,470	-	5,099	N/A
Total financial assets		**165,151**	**23,836**	**5,320**	**194,307**	
(ii) Financial liabilities						
Secured Notes	Fixed interest	-	164,115	-	164,115	11.00%
Trade creditors	Interest free	9,958	-	-	9,958	N/A
Trade creditors - sundry	Interest free	18,670	-	-	18,670	N/A
HP liabilities	Fixed interest	14	25	-	39	9.55%
Total financial liabilities		**28,642**	**164,140**	**-**	**192,782**	
Net position		**136,509**	**(140,304)**	**5,320**	**1,525**	

** Cash deposits include the following: first loss, bank guarantees and MIS custodian accounts

(iii) Net fair values

All financial assets and liabilities have been recognised at the balance date at their 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 current incremental borrowing rates for similar types of borrowing arrangements.

NOTE 33: FINANCIAL RISK MANAGEMENT (continued)

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

	2014		2013	
	Carrying amount $'000	Net fair value $'000	Carrying amount $'000	Net fair value $'000
Financial assets:				
Held to maturity financial assets				
- Cash Deposit - First Loss, Bank Guarantee, Escrow and Custodian Accounts	10,343	10,343	10,227	10,227
Loans and receivables	127,626	127,626	127,562	127,562
Financial assets at fair value through profit or loss				
- Derivatives (Hedging)	-	-	-	-
	137,969	137,969	137,789	137,789
Financial liabilities:				
Bills of exchange and secured notes	159,172	159,172	164,115	164,115
Other loans and amounts due	63,474	63,474	28,667	28,667
	222,646	222,646	192,782	192,782

Fair values are materially in line with carrying values.

(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 2014, 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:

	2014 $'000	2013 $'000
Change in profit		
- increase in interest rate by 1%	692	467
- decrease in interest rate by 1%	(692)	(467)
Change in equity		
- increase in interest rate by 1%	692	467
- decrease in interest rate by 1%	(692)	(467)

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.

NOTE 33: FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk sensitivity analysis

At 30 June 2014, 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:

	2014 $'000	2013 $'000
Change in profit		
- improvement in AUD to USD by 10%	(16,950)	(4,515)
- decline in AUD to USD by 10%	16,950	4,515
Change in equity		
- improvement in AUD to USD by 10%	(16,950)	(4,515)
- decline in AUD to USD by 10%	16,950	4,515

This sensitivity analysis reflects the net translation movement on all of the Group's US Dollar denominated financial assets and liabilities, as well as the Group's biological assets.

Price risk sensitivity analysis

At 30 June 2014, 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:

Change in profit		
- increase in sandalwood oil price by $100/kg	10,299	5,489
- decrease in sandalwood oil price by $100/kg	(10,299)	(5,489)
Change in equity		
- increase in sandalwood oil price by $100/kg	10,299	5,489
- decrease in sandalwood oil price by $100/kg	(10,299)	(5,489)

Heartwood yield risk sensitivity analysis

At 30 June 2014, 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:

Change in profit		
- increase in heartwood oil yield by 10%	25,190	13,877
- decrease in heartwood oil yield by 10%	(25,190)	(13,877)
Change in equity		
- increase in heartwood oil yield by 10%	25,190	13,877
- decrease in heartwood oil yield by 10%	(25,190)	(13,877)

Discount rate risk sensitivity analysis

At 30 June 2014, 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:

Change in profit		
- increase in discount rate by 2%	(45,523)	(26,715)
- decrease in discount rate by 2%	58,024	34,724
Change in equity		
- increase in discount rate by 2%	(45,523)	(26,715)
- decrease in discount rate by 2%	58,024	34,724

NOTE 34: 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 2014 the Group has committed to a third year of funding Santalis' product development costs.

NOTE 35: 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 in March 2016 (institutional) and September 2018 (high net worth 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 $31.71m and from the high net worth investors for $53.08m. 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 36: EVENTS AFTER BALANCE DATE

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2014 of 3.0 cents per share, to be paid on 10 November 2014. This equates to a total dividend of $9.73m.

Apart from the above no other events have occurred since balance date which have or may significantly affect the Group's operations, results of operations or state of affairs in future financial years.

NOTE 37: SHARE BASED PAYMENTS

The following share based payment arrangements existed at 30 June 2014:

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 is to occur by the end of 2014. The exercise price for each option is $1.80.

NOTE 37: SHARE BASED PAYMENTS (continued)

	2014		2013	
	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 2014
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 21 (a)) 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.

	2014		2013	
	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	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	55,500,000	1.28	55,500,000	1.28
Exercisable at year end	-	-	-	-

The weighted average fair value of the warrants outstanding at grant date was $0.1534. This price was calculated using the Bloomberg warrants pricing model applying the following inputs:

Weighted average exercise price	$1.28
Anticipated expiry date	15 July 2018
Underlying share price at date of issue	$0.895
Share price volatility	32.019%
Dividend yield	6%

NOTE 37: SHARE BASED PAYMENTS (continued)

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 TFS Long Term Incentive Plan ('TFSLTIP'). The Group obtained shareholder approval 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, are an exception to Listing Rule 7.1.

The following shares were issued under the TFS Long Term Incentive Plan:-

	2014		2013	
	Number	Weighted average exercise price ($)	Number	Weighted average exercise price ($)
Opening Balance	5,855,651	0.77	6,289,051	0.82
Issued during year				
Key Management Personnel	-	-	186,800	0.52
Other eligible employees	-	-	242,100	0.52
Shares previously held by employees who have resigned	(354,550)	0.65	(123,400)	1.11
Shares for which loan has been repaid	(361,900)	0.59	-	-
Shares forfeited by employees who have resigned	(567,700)	1.03	(738,900)	0.96
Vested shares sold by employees	(657,167)	0.84	-	-
Closing balance	3,914,334	0.77	5,855,651	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 TFSLTIP. These shares may not be transferred or otherwise dealt with until any loan in respect of the TFSLTIP share is repaid. The current value of the loan receivable in respect of these shares is $2.94m (2013: $3.81m).

The value of shares issued to employees financed by way of a non recourse loan under the employee TFSLTIP is recognised with a corresponding increase in equity when the company receives funds from either the employees repaying the loan or upon the loan termination. All shares issued under the plan with non recourse loans are considered, for accounting purposes, to be options.

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	1,589,500	9/03/2007	No fixed date	0.56	0.26
Share issue no. 2	537,200	6/06/2008	No fixed date	1.11	0.60
Share issue no. 3	339,700	6/06/2008	No fixed date	1.15	0.59
Share issue no. 4	655,234	27/02/2009	No fixed date	0.72	0.36
Share issue no. 5	363,800	2/02/2010	No fixed date	1.02	0.45
Share issue no. 6	428,900	10/05/2013	No fixed date	0.52	0.21
	3,914,334				

NOTE 38: KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2014 $	2013 $
Short-term employee benefits	1,950,117	1,771,181
Post-employment benefits	111,390	112,259
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	34,233	5,556
	2,095,740	1,888,996

NOTE 39: 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 39 to the financial statements.

b 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 personally related entity at arm's length in the same circumstances.

(i) FC 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 period to 30 June 2014 an amount of $359,605 (2013: $204,377) was charged to the Group. Frank Wilson neither directly nor indirectly received any financial benefit from these payments.

(ii) AC Gilchrist is a director of Crystal Lakes Pty Ltd. Crystal Lakes Pty Ltd is responsible for promoting the Group's business activities in Australia as well as internationally. During the year to 30 June 2014 an amount of $11,000 (2013: Nil) was paid by the Group. On 5 May 2014 the Group entered into a 2 year agreement with Crystal Lakes Pty Ltd at a cost of $200,000 per annum for promoting the Group's business activities in Australia as well as internationally .

(iii) Other transactions with directors as project subscribers (on terms no more favourable than other project subscribers).
- Total new project subscriptions by FC Wilson during the year ended 30 June 2014 were 215ha at a cost of $14,190,000 (GST inclusive) (2013: $11,517,000) and as a result of this he was entitled to $922,350 (GST inclusive) (2013: $959,750) of commissions to be offset against the amount payable. This new project subscription was financed by a loan from a Group controlled entity, Arwon Finance Pty Ltd, on normal commercial terms. Included in this subscription, consistent with the terms offered to other high net worth investors in June 2014 is a put option whereby FC Wilson can sell 175ha of these trees to the Group at a predetermined price of $15.80m. This put option is to be exercised in September 2018 and would require the Group to pay the consideration in November 2018 and November 2019. This put option is consistent with the terms of the other high net worth product sales entered into in the period.

NOTE 39: RELATED PARTY TRANSACTIONS (continued)

- In July 2013 the Group entered into an agreement with FC Wilson and an associated entity to acquire mature Indian Sandalwood trees for an amount totalling $11,177,860 (GST inclusive) consistent with the Group's strategy to directly own more mature Indian Sandalwood trees. This transaction was settled on 2 July 2013 at arm's length and on terms no more favourable than three other project subscribers who also sold mature Indian Sandalwood trees to the Group at the same time. The final acquisitions from FC Wilson of 78.17ha were 5ha lower than reported in the 2013 annual report. The indirect loan to FC Wilson from Arwon Finance Pty Ltd to finance the previous year's project subscription was extinguished on settlement of this transaction.
- Project lease and management fees paid by directors during the year were $39,535 (GST inclusive) (2013: $22,516).

	2014 $'000	2013 $'000
NOTE 40: PARENT ENTITY DISCLOSURES		
(a) Financial position		
Assets		
Current assets	61,787	40,718
Non-current assets	329,491	266,200
Total assets	391,278	306,918
Liabilities		
Current liabilities	21,594	11,686
Non-current liabilities	159,335	164,115
Total liabilities	180,929	175,801
Net Assets	210,349	131,117
Equity		
Issued Capital	184,964	117,760
Asset revaluation reserve	336	-
Option reserve	9,084	9,005
Retained profits	15,965	4,352
Total equity	210,349	131,117
(b) Financial performance		
Profit for the year	27,675	15,700
Other comprehensive income	336	-
Total comprehensive income	28,011	15,700

(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

NOTE 40: PARENT ENTITY DISCLOSURES (continued)

(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.

	2014 $'000	2013 $'000
Intercompany loans to controlled entities		
Tropical Forestry Services Ltd - Pre 31.05.2011	42,374	42,374
Arwon Finance Pty Ltd - Pre 31.05.2011	10,152	17,342
Mt Romance Holdings Pty Ltd	7,105	9,486
Gulf Natural Supplies Co	(163)	-
Tropical Forestry Services Ltd - Post 31.05.2011	173,657	107,222
Arwon Finance Pty Ltd - Post 31.05.2011	28,975	25,159
TFS Properties Ltd - Post 31.05.2011	29,455	34,367
	291,555	235,950

NOTE 41: 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.

NOTE 42: 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
Lot 794, Weaber Plains Road
Kununurra WA 6743

Mt Romance
Lot 2 Down Road
ALBANY WA 6330

Plantation
3/143 Edward Street
Ayr Qld 4807

Plantation
23 Providence Court
Katherine NT 0850

Bentleys
THINKING AHEAD

Independent Auditor's Report

To the Members of T.F.S. Corporation Limited

Bentleys Audit & Corporate (WA) Pty Ltd

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West Perth WA 6005
Australia
PO Box 44
West Perth WA 6872
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ABN 33 121 222 802
T +61 8 9226 4500
F +61 8 9226 4300
bentleys.com.au

We have audited the accompanying financial report of T.F.S. Corporation Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standards AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 control 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 control. 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 followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Opinion

In our opinion:

a. The financial report of T.F.S. Corporation Limited 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 2014 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 statements also comply 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 2014. 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 T.F.S. Corporation Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Bentleys

BENTLEYS
Chartered Accountants

PHILIP RIX FCA
Director

Dated at Perth this 28th day of August 2014

Additional Securities Exchange Information

as at 22 September 2014

Twenty Largest Shareholders

Shareholder	Number	% of issued capital
DOMENICA NOMINEES PTY LTD	44,142,829	13.62
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	27,084,293	8.36
CITICORP NOMINEES PTY LIMITED	25,434,018	7.85
J P MORGAN NOMINEES AUSTRALIA LIMITED	24,683,294	7.61
UBS NOMINEES PTY LTD	20,514,962	6.33
NATIONAL NOMINEES LIMITED	11,145,677	3.44
STEYNTON NOMINEES PTY LTD	10,000,000	3.08
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,318,392	2.57
BNP PARIBAS NOMS PTY LTD	5,136,827	1.58
MR RONALD EACOTT	4,835,600	1.49
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	3,894,931	1.20
MR JULIUS LUKE MATTHYS	2,975,000	0.92
MR TIMOTHY CROOT & MS EILEEN RAE CROOT	2,116,580	0.65
MR ROB BOSHAMMER	2,021,123	0.62
MR PETER HONDROS	2,000,000	0.62
MRS ANNA LOUISE COXON	1,778,575	0.55
MR ANDREW JOHN OFFEN & MRS IZUMI OFFEN	1,400,000	0.43
HEALTH SERVICES INTERNATIONAL PTE LTD	1,380,000	0.43
VALKAR HOLDINGS PTY LTD	1,375,000	0.42
BOND STREET CUSTODIANS LIMITED	1,303,131	0.40
TOTAL	**201,540,232**	**62.17%**

Number of Shares and Shareholders

324,157,408 fully paid ordinary shares are held by 5,975 shareholders.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Distribution of Shareholders

Range	Total Holders	Total No. Of Shares	% of Issued Capital
1 to 1,000	1,031	469,815	0.14%
1,001 to 5,000	1,910	5,536,772	1.71%
5,001 to 10,000	1,018	7,865,791	2.43%
10,001 to 100,000	1,784	54,249,178	16.74%
100,001 and Over	232	256,035,852	78.98%
Total	**5,975**	**324,157,408**	**100.00%**

There are 411 shareholders with less than a marketable parcel.

Additional Securities Exchange Information

as at 22 September 2014

Substantial Shareholders (greater than 5%)

The names of the substantial shareholders listed in the holding company's register as at 22 September 2014 are:

Shareholder	Number	% of issued capital
DOMENICA NOMINEES PTY LTD	44,142,829	13.62%
REGAL FUNDS MANAGEMENT PTY LIMITED	19,903,983	6.14%
Total	**64,046,812**	**19.76%**

Company Secretary

Simon Storm and Quentin Megson

Principal Registered Office

169 Broadway
Nedlands WA 6009

Share Registry

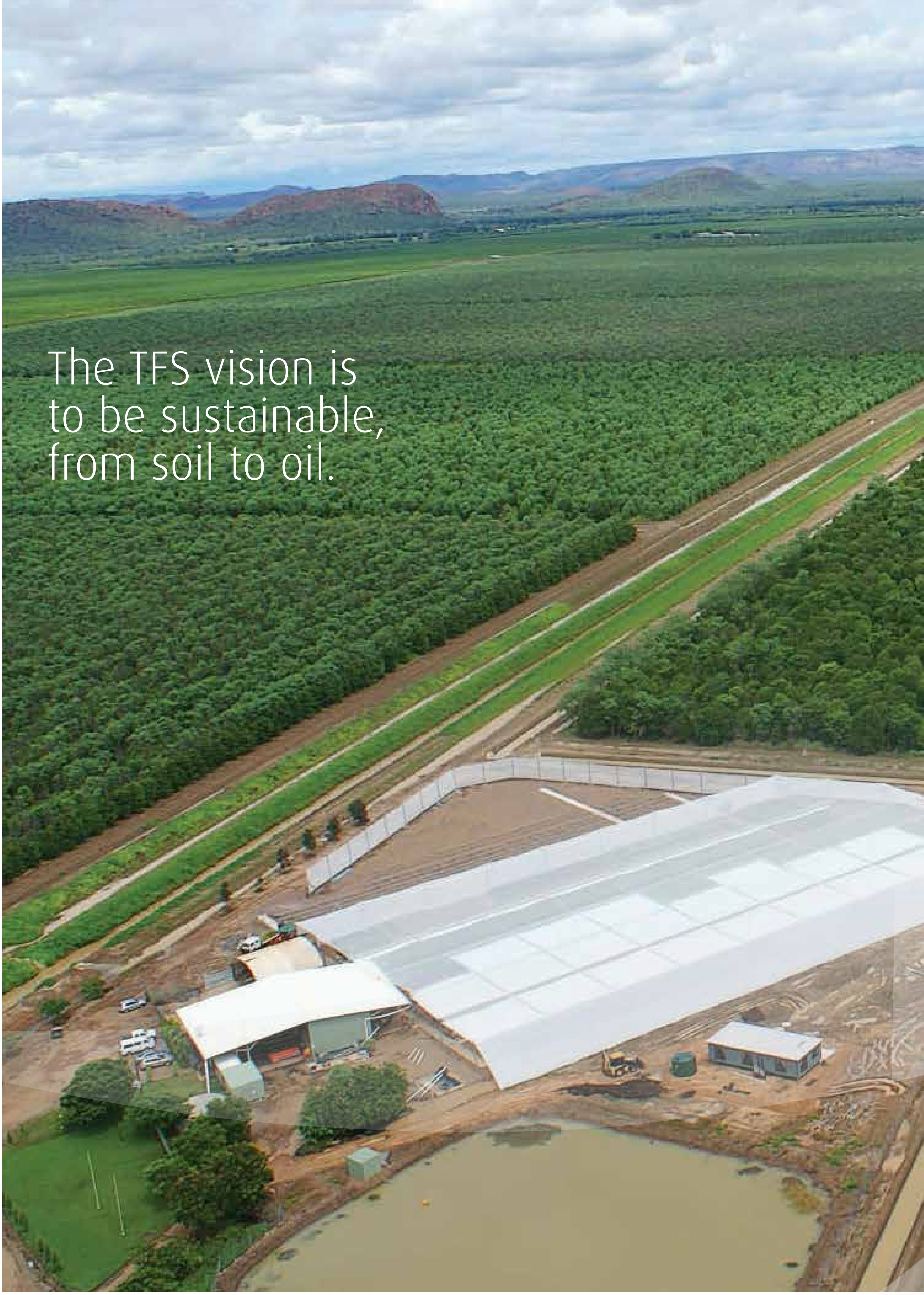
Link Market Services Limited
Central Park
Level 4
152 St Georges Terrace
Perth WA 6000

Stock Exchange Listings

Quotation has been granted for all of the ordinary shares of the company on the Australian Securities Exchange.

Consolidated Historical Statistics

TFS Corporation Ltd's consolidated results for the years ended 30 June		2014	2013	2012	2011
Total revenue from services	($'000)	105,885	94,531	61,483	66,405
Revenue from products sales	($'000)	20,475	18,412	16,288	18,809
Gain on tree valuation / deferred revenue	($'000)	77,074	66,019	38,437	19,995
Other revenue	($'000)	8,787	8,727	10,630	5,828
Earnings before interest & tax	($'000)	133,487	94,907	50,168	29,493
Net profit after tax	($'000)	82,802	55,729	25,878	20,166
Earnings per share (basic)	(cents)	28.93	19.93	9.29	8.36
Return on shareholders equity	(% pa)	17.76	17.17	9.62	8.33
Dividend per ordinary share	(cents)	3.00	3.00	-	4.75
Dividend franking	(% pa)	100	100	-	100
Dividend payout ratio	(%)	11.74	15.05	-	65.12
Financial ratios					
Net tangible assets per share	(cents)	112.07	80.68	63.45	61.25
Net interest cover	(times)	6.65	5.63	2.92	6.40
Net Debt / equity ratio	(%)	15.14	33.16	33.98	(1.17)
Gearing ratio (net debt / debt + equity)	(%)	13.15	24.90	25.36	(1.18)
Current asset ratio	(times)	1.84	3.89	5.76	3.66
Balance sheet data as at 30 June					
Current Assets	($'000)	187,779	188,343	179,497	178,437
Non-current assets	($'000)	643,737	426,718	312,358	287,861
Total assets	($'000)	831,516	615,061	491,855	466,298
Current liabilities	($'000)	102,304	48,460	31,188	48,804
Non-current liabilities	($'000)	262,885	241,969	191,777	175,393
Total liabilities	($'000)	365,189	290,429	222,965	224,197
Net Assets	($'000)	466,327	324,632	268,890	242,101
Shareholders' equity					
Share capital	($'000)	184,964	117,760	117,760	115,687
Reserves	($'000)	17,501	17,111	17,040	8,584
Retained profits / (accumulated losses)	($'000)	263,862	189,761	134,090	117,830
Total shareholders equity	($'000)	466,327	324,632	268,890	242,101
Other data as at 30 June					
Company status		Listed Public	Listed Public	Listed Public	Listed Public
Fully paid shares	(000's)	324,157	279,622	279,622	276,453
Number of shareholders		5,652	4,852	4,977	5,073
TFS's share price:					
- years high	(cents)	1.88	61.5	90.0	107.2
- years low	(cents)	42.5	32.5	37.0	74.8
- close	(cents)	1.65	51.0	49.5	88.5
Market Capitalisation	($'000)	534,860	142,607	138,413	244,661


The TFS vision is
to be sustainable,
from soil to oil.

TFS Corporation Ltd
ABN 97 092 200 854

SOIL TO OIL
Vertically Integrated Sandalwood Company

169 Broadway,
Nedlands WA 6009

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