

**T.F.S. CORPORATION LTD**

**ABN 97 092 200 854**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2016**

## CONTENTS

	<u>Page</u>
Directors' Report	2-27
Directors' Declaration	28
Consolidated Statement of Profit or Loss and Other Comprehensive Income	29
Consolidated Statement of Financial Position	30
Consolidated Statement of Changes in Equity	31
Consolidated Statement of Cash Flows	32
Notes to the Accounts	33-101
Independent Auditor's Report	102-103

## CORPORATE DIRECTORY

### DIRECTORS

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

### REGISTERED OFFICE / PRINCIPAL PLACE OF BUSINESS

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Nedlands WA 6009  
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Email: TFS@TFSLtd.com.au

Website: [www.tfsltd.com.au](http://www.tfsltd.com.au)

### COMPANY SECRETARY

Mr Quentin Megson  
Mr Simon Storm

### SHARE REGISTRY

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

### AUDITORS

Ernst & Young  
11 Mounts Bay Road  
Perth, Western Australia

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T.F.S. CORPORATION LTD shares are listed on the  
Australian Securities Exchange (ASX)

## DIRECTORS' REPORT

Your Directors present their report for the year ended 30 June 2016.

### Directors

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

<b>Dalton Gooding</b>	Non-Executive Chairman
Qualifications:	BBus, FCA
Experience:	Mr Gooding was formerly a long standing partner at Ernst & Young and is a Fellow of the Institute of Chartered Accountants in Australia. He has over 35 years' experience and is currently the Senior Partner of Gooding Partners where he advises a wide range of businesses with an emphasis on taxation and accounting issues, due diligence, feasibilities and general business advice.
Interest in shares and performance rights:	207,913 ordinary shares in T.F.S. Corporation Ltd, (0.05% of the Company) at 25 August 2016.
Interests in TFS Projects:	3.6Ha (2015: 3.6Ha) of interests held in TFS Indian Sandalwood projects.
Special responsibilities:	Audit Committee; Remuneration Committee (Chairman)
Directorships held in other listed entities in the last 3 years:	Brierty Ltd (appointed 26 October 2007) Katana Capital Ltd (appointed 11 November 2005) SIPA Resources Ltd (appointed 1 May 2003) Avita Medical Ltd (resigned 1 July 2014)
<b>Frank Wilson</b>	Managing Director
Qualifications:	LLB
Experience:	Mr Wilson is the founding Chairman of the TFS Group having been appointed on 28 March 2000. In December 2006 he was appointed to the role of Executive Chairman, a role which he held until 10 November 2011 when he resigned from the Board. On 12 June 2012 he was re-appointed to the Board in the role of Executive Director followed by the appointment as Executive Chairman on 3 October 2012. The Chairman's role was relinquished on the appointment of a Non-Executive Chairman on 17 September 2013.  He was previously the Managing Partner of the legal firm Wilson & Atkinson, which at the time specialised in taxation, property and commercial law. Mr Wilson is an experienced businessman, who has a long standing involvement in the forestry industry. He is also a governor of the University of Notre Dame.
Interest in shares and performance rights:	48,810,285 ordinary shares in T.F.S. Corporation Ltd (12.6% of the Company) at 25 August 2016 and 763,261 performance rights.
Interests in TFS Projects:	413.5Ha (2015: 418.5Ha) of interests held in TFS Indian Sandalwood projects.
Special responsibilities:	Nil
Directorships held in other listed entities in the last 3 years:	None

## DIRECTORS' REPORT

### **Julius Matthys**

Non-Executive Director

Qualifications:

BCom

Experience:

Mr Matthys was appointed to the Board on 23 December 2011 and was Vice President Corporate Affairs for the BHP Billiton Group in Western Australia until 30 June 2016. 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.

Interest in shares and performance rights:

3,348,118 ordinary shares in T.F.S. Corporation Ltd (0.86% of the Company) at 25 August 2016.

Interests in TFS Projects:

1.3Ha (2015: 1.3Ha) of interests held in TFS Indian Sandalwood projects.

Special responsibilities:

Audit Committee

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

None

### **John Groppoli**

Non-Executive Director

Qualifications:

LLB, BJuris, FAICD

Experience:

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

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

Interest in shares and performance rights:

Nil

Interests in TFS Projects:

Nil

Special responsibilities:

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

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

Automotive Holdings Group Limited (appointed 4 July 2006)

## DIRECTORS' REPORT

### **Gillian Franklin**

Non-Executive Director

#### Qualifications:

Corporate Director's Diploma

#### Experience:

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

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

#### Interest in shares and performance rights:

197,368 ordinary shares in T.F.S. Corporation Ltd (0.05% of the Company) at 25 August 2016.

#### Interests in TFS Projects:

Nil

#### Special responsibilities:

Remuneration Committee; Risk Management Committee

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

None

### **Michael Kay**

Non-Executive Director

#### Qualifications:

LLB

#### Experience:

Most recently, Mr Kay was Chief Executive Officer and Managing Director of listed salary packaging company, McMillan Shakespeare Ltd, a position he held for six years. Previously Mr Kay had been CEO of the national insurer, AAMI, after serving in a variety of senior roles with that company. Prior to joining AAMI, Mr Kay spent 12 years in private legal practice. Mr Kay is a Director of Royal Automobile Club Insurance (WA), IMF Bentham Limited and Apply Direct Ltd (Executive Chairman). He is a former member of the Commonwealth Consumer Affairs Advisory Council, the Administrative Law Committee of the Law Council of Australia, the Victorian Government Finance Industry Council and the Committee for Melbourne.

#### Interest in shares and performance rights:

164,474 ordinary shares in T.F.S. Corporation Ltd (0.04% of the Company) at 25 August 2016.

#### Interests in TFS Projects:

Nil

#### Special responsibilities:

Risk Management Committee (Chairman)

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

IMF Bentham Limited – Non-Executive Chairman (appointed 1 July 2015)  
Apply Direct Ltd – Executive Chairman (appointed 6 March 2016)  
Lovisa Holdings Limited – Non Executive Chairman (appointed 13 April 2016)  
McMillan Shakespeare Ltd (resigned 30 September 2014)

## DIRECTORS' REPORT

### 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 over 20 years.

#### *Mr Simon Jonathan Storm*

Mr Storm joined the TFS Group in January 2013 as Company Secretary. He is a Chartered Accountant with over 25 years of Australian and international experience in the accounting profession and commerce. He has held various senior finance and/or company secretarial roles with listed and unlisted entities in the banking, resources, construction, telecommunications, funds management and property development industries. In the last 14 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, the following meetings were held. Attendances by each Director during the year were as follows:

	Directors' Meeting		Meetings of Committees					
	Number eligible to attend	Number attended	Audit		Remuneration		Risk Management	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Dalton Gooding	16	16	3	3	3	3	-	-
Frank Wilson	16	15	-	-	-	-	-	-
Julius Matthys	16	13	3	3	-	-	-	-
John Groppoli	16	15	3	3	3	3	2	2
Gillian Franklin	16	15	-	-	3	3	2	2
Michael Kay	16	16	-	-	-	-	2	2

### Committee Membership

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

Members active on the Committees of the Board during the year were:

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

Note: (c) Designates the Chair of the Committee

### Principal Activities

The principal activities of T.F.S. Corporation Ltd ("TFS") and its consolidated entities ("the Group") during the year were:

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

Apart from the changes arising from the acquisition of Santalis Pharmaceuticals Inc. ("Santalis") and ViroXis Corporation ("ViroXis") in July 2015, there have been no significant changes in the nature of those activities undertaken during the period.

## DIRECTORS' REPORT

### Review of Results and Operations

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

### Operating Results

The consolidated net profit after tax of the Group for the financial year amounted to \$90.143m compared to \$113.021m in the prior year.

### Operating Revenue

Total revenue from ordinary activities (excluding the gain on revaluation of the External MIS growers' interest in biological assets) totalled \$191.702m, up from \$178.107m in 2015. The main contributors to the Group's income are:

- sales of new plantations to institutional, SIO and MIS retail investors;
- sales of Sandalwood products; and
- fees for the provision of plantation management services.

Consistent with prior years, income from establishment fees charged on the sale of new plantations to investors are recognised as revenue in the Statement of Profit or Loss based on the proportion of work performed at the reporting date. The new sales finalised in the year to 30 June 2016, which will be recognised in both the 2016 and 2017 financial years, comprised:

Investor	2016	2015
Institutional (Hectares sold)	521	802
Sophisticated Investors (Hectares sold)	588	651
Managed Investment Schemes (Hectares sold)	67	80
<b>Total Hectares Sold</b>	<b>1,176ha</b>	<b>1,533ha</b>
Total Establishment Fees	\$86.948m	\$87.629m
Average Establishment Fee per Hectare	\$73,908	\$57,148

The total establishment fees generated in FY16 were broadly comparable to FY15. The average establishment fee per hectare strongly improved in 2016 due to price increases in excess of 10% on all three plantation products and to a reduced number of sales at historic option prices. All the plantation options granted in 2010 to the original investors in the Group's institutional product have now lapsed.

In the year to 30 June 2016, two institutional investors acquired new plantations from the Group; the Church Commissioners for England acquired 213 hectares in September and a US-based global investment management fund acquired \$26.952m of land and plantations in June.

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

None of the plantation sales made by the Group in 2016 included options for the plantation investors to put their plantations to TFS in a subsequent year. As disclosed in the 2015 Annual Report, certain plantation sales made in 2014 included such put options. Since the value of these put options, if exercised, is expected to be significantly below the expected fair value of the plantations the probability of exercise is considered to be low (refer to Contingent Liabilities in Note 33).

## DIRECTORS' REPORT

Revenue from the sale of Sandalwood products, including Indian Sandalwood oil and processed wood products, increased to \$29.778m in the year to 30 June 2016 from \$27.662m in the prior year. With the forecasted tenfold increase in the annual harvest in 2016 this revenue stream is expected to increase significantly in the year to 30 June 2017. During the year, the Group entered into forward supply agreements for processed wood products with new customers in China, India and the Middle East. These new arrangements supplement the Group's existing oil supply contracts with Galderma in the US and Lush Cosmetics in Europe.

Included within Other Income is the revaluation of the Group's owned biological assets of \$76.893m for the year ended 30 June 2016, compared to \$143.752m in 2015. The key driver of this year on year reduction was a lower unrealised gain from foreign currency movements, with a 3 cent decline in the Australian Dollar to US Dollar rate, compared to a 17 cent decline in the year to 30 June 2015.

### **Operating Costs**

Operating costs on core activities (excluding depreciation and amortisation, interest, finance costs, re-measurement of the External MIS growers' liabilities and unrealised foreign exchange movements) increased 17% to \$112.102m (2015: \$95.928m), mainly due to:

- direct plantation and other operating expenses increasing 13% to \$30.778m (2015: \$27.286m) with the increase in size of plantations under management increasing 15% to 12,182 hectares;
- salaries and wages increasing by 33% to \$32.919m (2015: \$24.744m) as a consequence of the increase in size of plantations under management and the acquisition of Santalis and ViroXis, which now form the Group's pharmaceutical product development division. The average number of permanent employees at 30 June 2016 was 200, an increase of 19% on 2015; and
- sales and marketing expenditure increasing by 9% to \$7.723m (2015: \$7.056m).

During the year, the Group successfully acquired the wood from the second MIS grower harvest (the TFS No. 2 project, planted by the Group in 2000) via public tender. This wood was processed into oil at the Group's Mt Romance distillation facility and sold in the current year.

### **Interest and Financing Expenditure**

Interest and finance costs for the year totalled \$30.397m (2015: \$22.450m). The Group's Senior Secured Notes are denominated in US Dollars. The increase in costs was due to the strengthening of the US Dollar and an increase in debt following the issuance of US\$25.000m of Senior Secured Notes in November 2015 increasing the outstanding Notes to US\$200.000m at 30 June 2016 (2015: US\$175.000m).

In July 2016, the Group issued new Senior Secured Notes, due in 2023, and used the proceeds to redeem the Notes outstanding at 20 July 2016. Refer to Note 34: Events after Balance Sheet Date.

### **Statement of Cash Flows**

Cash and cash equivalents increased at 30 June 2016 by 47% to \$106.993m (2015: \$72.674m). Significant inflows in the year were gross receipts from operations of \$145.463m, proceeds from borrowing of \$36.007m, and \$65.696m from the issue of new ordinary shares.

### **Operating Cash Flows**

Cash flows from operating activities decreased by 18% to \$20.246m (2015: \$24.571m). The key reason for the decline was the increase of \$11.594m to \$31.211m of finance charges in 2016 due to the weakening of the Australian Dollar against the US Dollar and the issuance of US\$25.000m of additional Senior Secured Notes in November 2015.

### **Investing Cash Flows**

Cash outflow for investing activities increased by 13% to \$80.080m (2015: \$70.859m). During the year, the Group made a series of investments to increase its ownership of Indian Sandalwood plantations, consistent with the Group's strategic priorities. The total cost of these investment choices was \$34.115m (2015: \$45.199m). Payments for land and buildings also increased with outflows of \$16.686m, compared to \$7.096m in 2015, with the majority of the investment to acquire land for the establishment of new plantations in both 2016 and 2017.

The Group announced its intention to commence a series of buy backs of MIS owned plantations. The cash outflow for investing activities includes the cost of the first of these buy backs, \$11.845m, associated with the acquisition of 66% of the interests not already owned by the Group in the TFS 2000 Project.



## DIRECTORS' REPORT

### **Financing Cash Flows**

Cash flows from financing activities increased to \$94.153m in the year to 30 June 2016 (2015: \$30.381m). The primary sources of financing cashflows in 2016 were \$60.450m from the equity issuance to institutional investors in April 2016, US\$25.000m of Notes issued in November 2015 and \$8.000m of equity from a share purchase plan which completed in May 2016.

### **Statement of Financial Position**

#### **Current Assets**

Current assets increased by 18% to \$248.226m (2015: \$210.170m) due to higher cash and cash equivalents (with \$106.993m at 30 June 2016) and biological assets. Biological assets increased to \$28.247m, relating to trees which are expected to be harvested and sold within 12 months.

#### **Non-current Assets**

Non-current assets increased by 32% to \$1,243.732m (2015: \$942.890m) mainly due to an increase in the value of the Group's biological assets (to \$742.961m from \$623.666m at 30 June 2015) and an increase of 132% in intangible assets and goodwill (to \$265.218m from \$114.379m at 30 June 2015).

The Group's biological asset increased due to a greater ownership of plantations (the Group's direct ownership of plantations increased from 2,467 hectares to 2,638 hectares), a more favourable exchange rate, and a fair value gain due to a shorter period to harvest.

Intangible assets increased due mainly to an increase in accrued income receivable and the business combination that finalised during the year. The main effects of the business combination to the TFS Group, resulted in Intangible Assets classified as royalties for \$9.278m, and In-process research and development for \$114.520m.

Property, plant and equipment increased to \$161.713m (2015: \$145.845m) due mainly to the acquisition of irrigation and infrastructure assets, commensurate with the expanding operational activities.

In accordance with our accounting policy, the Group engaged CBRE Valuations Pty Limited to provide an independent market appraisal of approximately 71% of the Group's properties located throughout the tropical regions of Northern Territory, Queensland and Western Australia, and completed a Directors' valuation for the remaining third. Management adjusted the valuation to reflect any encumbrances (to comply with Australian Accounting Standard) on the properties. The encumbrance is due to the properties being used for Sandalwood plantations, meaning the properties cannot be used for any other activity until trees have been harvested. The net result of the market appraisal and encumbrance adjustment was an impairment impact of \$6.661m (pre-tax) in the profit and loss and \$2.034m (net of tax) to the asset revaluation reserve.

#### **Current Liabilities**

Current liabilities decreased by 1% to \$95.403m (2015: \$95.890m) due to a decrease in trade and other payables by 10% to \$49.353m (2015: \$55.089m) which was partially offset by an increase to financial liabilities of \$14.039m.

#### **Non-current Liabilities**

Non-current liabilities increased by 35% to \$649.333m (2015: \$482.647m) due to increases in deferred tax, mainly arising as a consequence of the timing difference booked on the unrealised gains on the biological assets, and financial liabilities. Financial liabilities increased 27% to \$442.105m (2015: \$349.384m) primarily due to the issue of US\$25.000m of additional Senior Secured Notes and the impact of the weaker Australian dollar on the US dollar denominated Notes.

## **Operations Review**

### **Business Combination**

On 31 July 2015, the Group completed the acquisition of Santalis Pharmaceuticals Inc. and ViroXis Corporation (together "Santalis Pharmaceuticals"). Santalis Pharmaceuticals manufactures and markets botanical pharmaceuticals using Indian Sandalwood oil, as well as develops and commercialises innovative, proprietary, botanical pharmaceuticals derived from Indian Sandalwood oil. The strategic rationale behind the acquisitions was to:

- Extend the Group's vertically integrated business and bring within the Group the formulation and development of products which is likely to maximise the demand for the Group's Indian Sandalwood oil;
- Provide the Group with increased access to the significant potential returns from royalty and licensing fees from dermatology products; and
- Provide a direct contractual and operational relationship with leading global pharmaceutical companies.

## DIRECTORS' REPORT

### ***Increase in Ownership of Sandalwood Plantations through MIS Buy Back Programme***

During the financial period, the Group announced its intention to increase its ownership of Indian Sandalwood plantations by acquiring up to 221 hectares of MIS grower interests across five MIS projects. The buy back was expected to have a maximum cost of \$52.694m, funded by the equity raise completed in April 2016.

On 31 May 2016, TFS reported the first buy back offer had closed with an acceptance rate of 66%. This offer related to the TFS 2000 project, due to be harvested in calendar year 2016. The Group acquired 33 hectares at a cash cost of \$11.845m.

Subsequent to year end, the Group has launched the second of the buy backs and distributed offer letters to all growers in the TFS 2002 Project, which is due to be harvested in 2017.

### ***Issue of Shares***

On 4 April 2016, TFS completed a placement to institutional shareholders which resulted in \$60.450m being raised through the issuance of 39 million new ordinary shares at a price of \$1.55 per share.

In addition, in May 2016, a share purchase plan was offered to eligible shareholders which resulted in a further \$8.000m being raised at the same issue price of \$1.55. The funds raised through the capital raising process have been allocated to the aforementioned buy back of up to 221 hectares of MIS owned plantations.

### ***Promotion of Plantation Sales and Retail Managed Investment Schemes***

During the year the Group entered into contracts to establish and manage a further 521 hectares (2015: 802 hectares) of Indian Sandalwood plantation for institutional wholesale investors. In addition, the Group promoted its new project titled TFS Sandalwood Project 2016, as well as a product for sophisticated investors.

### ***Manufacture and Distribution of Australian Sandalwood Oil and Related Products***

A Group entity, Mount Romance Australia Pty Ltd, manufactures and distributes Indian and Australian Sandalwood oil and related products to international markets. In the year to 30 June 2016, the Mount Romance business contributed earnings before interest, tax, depreciation and amortisation of \$10.949m (2015: \$9.402m).

### ***Management and Maintenance of Plantations***

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

- the first count of plantations established in 2015 with an excellent tree survival rate of 98%, and
- overall good performance across the estate, with average mortality on all other plantations of less than 1%.

### ***Harvest of Plantations***

The third harvest of Indian Sandalwood from plantations established in Kununurra for the TFS Sandalwood Project 2000 ("TFS 2000") commenced in June 2016 with the harvest of approximately 24 hectares. The remaining 75 hectares of TFS 2000 was harvested in July and August 2016. Wood owned by the Group is in the process of either being processed into marketable products at the Group's Processing Centre in Kununurra or chipped and transported to the Group's distillery in Albany to produce Indian sandalwood oil. The harvest produce owned by growers will be sold at tender at the conclusion of the harvest and after an appropriate period of marketing.

### ***Ownership of Land and Plantations***

TFS continues to expand its plantations under management and established over 1,600 hectares of new Indian Sandalwood plantations during the financial year (2015: 1,539 hectares).

The Group's geographic land and plantation composition (expressed in hectares) at 30 June 2016 is set out below.

	Established plantations			
	WA	QLD	NT	Total
TFS interest	1,522	621	495	2,638
Beyond Carbon plantations	1,068	185	3,122	4,375
MIS/SIO plantations <sup>(i)</sup>	2,977	568	1,624	5,169
Total (Hectares)	5,567	1,374	5,241	12,182

<sup>(i)</sup> As at 30 June 2016, the Group was entitled under its deferred management fee arrangements to the gross harvest proceeds from an estimated 993 hectares (2015: 1,024 hectares) of plantations.

## **DIRECTORS' REPORT**

During 2016, the Group increased its direct ownership of plantations to 2,638 hectares (2015: 2,467 hectares).

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

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

### ***Provision of Finance***

Arwon Finance Pty Ltd ("Arwon"), a 100% owned subsidiary, is a provider of finance, with the major focus being the provision of finance to investors in agricultural projects promoted and managed by the Group. Arwon also continues to manage loan portfolios that are owned by a subsidiary of the Commonwealth Bank of Australia and Burlington Loan Management Limited.

In June 2016, the Group entered into agreements to sell a portfolio of loans advanced to plantations investors and to commence loan funding programmes with two Australian financiers. Settlement of the sale of the first portfolio of loans occurred in August 2016. Under the terms of the agreements, non-performing loans will be repurchased by the Group. Each loan is secured by the underlying Indian Sandalwood plantation asset and provides full recourse to the borrower.

The monetisation of the loan portfolio illustrates the Group's ability to provide an ongoing option for the Group in the management of its capital requirements.

### ***Risk Management***

The Group takes a pro-active approach to risk management. The Risk Committee 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.

### ***Community***

At TFS, we believe in contributing to the communities where we work. Around 90% of our workers (employees, casuals and contractors) are located in regional Australia and in many of these areas like Albany and Kununurra, TFS is a significant regional business. To deliver economic and social benefits to these communities, we provide local employment, use local suppliers and sponsor local charities and associations. By focusing on sponsorships that promote long-lasting benefits like education-based initiatives, we help to build capacity in these rural communities. In FY16 the Clontarf Foundation, Albany Men's Health and the Barunga Festival were just some of the many local organisations that benefitted from TFS sponsorship.

### ***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. Management have implemented hazard reporting and inspection processes to better fit legislative requirements across three jurisdictions, with a lost time injury frequency rating of 3.80 (2015: 3.39). These have been fully deployed with full support from the Board. Safety quality and environmental officers have been trained in maintaining required standards of knowledge and practice across the business to mitigate workplace risks.

A new Document Management System has been introduced to enhance access to documents and record keeping across the organisation. A follow up Processing Plant risk assessment has been completed to coincide with the procurement of new safer plant, in order to reduce risks associated with wood processing. Future phases of the TFS Safety Management Plan include further development of the TFS Staff and Contractor induction and training process.

### ***Significant Changes in the State of Affairs***

Aside from the matters discussed above, there were no other significant changes in the state of affairs during the year.

## DIRECTORS' REPORT

### Post Balance Date Events

On 21 July 2016, the Group announced the issuance of US\$250.000m of Senior Secured Notes. The proceeds of these new Notes were used to redeem the Group's original Notes, issued in 2011 and due in 2018. The new issuance extended the maturity of the Group's debt by 5 years to 2023 and reduced the Group's cost of debt by 20%.

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2016 of 3 cents per share. This equates to a total dividend of \$11.643m.

### Future Developments, Prospects and Business Strategies

The Directors foresee that for the 2017 financial year, the most significant areas of focus will be in:

- the establishment of a further circa 1,500 hectares of new Indian Sandalwood plantations, with the majority located in the Northern Territory;
- the completion of the 2016 harvest which is expected to yield around ten times the heartwood of each of the Group's first (in 2014) and second (in 2015) harvest; and
- the distillation of oil from both Indian and Australian Sandalwood trees with a focus on the processing of pharmaceutical grade Indian Sandalwood oil.

In the medium to long term, the Group will have a continued focus on:

- increasing the direct ownership of Indian Sandalwood plantations;
- research and development of botanical pharmaceuticals and bio-pharmaceutical products for commercialising;
- increased and broader distribution of Sandalwood products to customers in US, Europe, China and Asia in markets for wood and oil; and
- the sale of new plantations to institutional, sophisticated investors and retail customers in domestic and international markets.

### 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 corporations. At the current stage of development, the Directors have determined that the NGER Act does not affect the company for the current or subsequent financial year. The Directors will reassess this position as and when the need arises.

### Dividends

The following dividend was declared and paid during the 2016 financial year.

	Cents per share	Total amount \$'000	Date of payment
Final ordinary – fully franked	3 cents per share	10,241	9 November 2015

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

	Cents per share	Total amount \$'000
Final ordinary – fully franked	3 cents per share	11,643

The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2016 and will be recognised in subsequent Financial Reports.

## DIRECTORS' REPORT

### Indemnification and Insurance of Directors and Officers

To the extent permitted by Law, the Company has indemnified the Directors of the Company for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith. During the financial year, the Company paid a premium in respect of a contract to insure the Directors of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

During or since the financial year, the Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company other than:

- (a) A wilful breach of duty; and
- (b) A contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The cover included professional indemnity as well as Directors and Officers' insurance. The contract prohibits the disclosure of the nature of the liabilities or the amount of premium paid.

### Indemnification of Auditors

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

### Options, Warrants and Performance Rights

At the date of this report, the unissued ordinary shares of T.F.S. Corporation Ltd under option, warrants or performance rights are as follows.

Grant Date	Date of expiry	Exercise price	Number under option/warrants
1 August 2011	15 July 2018	\$1.28	54,390,000
21 February 2008	31 December 2017	\$1.80	1,000,000
27 January 2015	27 January 2022	\$-	2,068,004
13 November 2015	13 November 2022	\$-	250,593
18 December 2015	18 December 2022	\$-	1,171,871

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

### 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.

### ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191

The company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

## DIRECTORS' REPORT

### Auditor independence and non-audit services

The Directors received the following declaration from Ernst & Young:



Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

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

As lead auditor for the audit of TFS Corporation Ltd for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

D S Lewsen  
Partner  
25 August 2016

A member firm of Ernst & Young Global Limited  
Liability limited by a scheme approved under Professional Standards Legislation

DSL:JT:TFS:065

### Non-Audit Services

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

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

	\$
Tax compliance services	101,700
Corporate modelling	24,476
	<u>126,176</u>

## DIRECTORS' REPORT

### Remuneration Report - Audited

#### Introduction

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the Directors and for the Key Management Personnel ("KMP") of T.F.S. Corporation Ltd (the "Company") and its controlled entities (the "Group") for the financial year ended 30 June 2016. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Company.

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

The table below outlines the KMP of the Group during the financial year ended 30 June 2016. Unless otherwise indicated, the individuals were KMP for the entire financial year.

<b>(i) Non-executive Directors</b>	
D. Gooding	Non-Executive Chairman
J. Matthys	Non-Executive Director
J. Groppoli	Non-Executive Director
G. Franklin	Non-Executive Director
M. Kay	Non-Executive Director
<b>(ii) Executive Directors</b>	
F. Wilson	Managing Director ("MD")
<b>(iii) Senior Executives</b>	
P. Castella <sup>(a)</sup>	Chief Executive Officer of Santalis Pharmaceuticals Inc
Q. Megson	GM Operations and Corporate Services
A. Stevens	Chief Financial Officer ("CFO")
I. Thompson	Senior Adviser

<sup>(a)</sup> P Castella became a KMP on 31 July 2015, being the date of the business combination.

#### 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 MD and the executive team.

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

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

#### Executive Remuneration Arrangements

##### Remuneration Policy

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

##### Non-Executive Director Remuneration

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

Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The aggregate fee pool limit currently stands at \$800,000 and was approved by shareholders at the Annual General Meeting of 14 November 2014. The table below provides details of Board and Committee fees for the 2016 financial year and current Committee membership. The fee levels shown were current as at 30 June 2016.



## DIRECTORS' REPORT

### Remuneration Report - Audited

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

Main Board	2016 \$
Non-Executive Chairman – D. Gooding	180,000
Members – all Non-Executive Directors	85,000
Audit Committee	
Chairman – J. Groppoli	12,000
Members – D. Gooding, J. Matthys	5,000
Remuneration Committee	
Chairman – D. Gooding	10,000
Members – J. Groppoli, G. Franklin	5,000
Risk Management Committee	
Chairman – M. Kay	10,000
Members – J. Groppoli, G. Franklin	5,000

### Senior Manager and Executive Director Remuneration

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

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

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

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

- Continued use of an executive long term incentive scheme to contribute to key employee retention;
- Engagement of independent executive search and Board consulting firm to benchmark the remuneration of the senior Executive team; and
- Update the MD and Executives' key performance indicators on an annual basis to reflect strategic and business milestones and ensure robust measurement for Short Term Incentives.



## DIRECTORS' REPORT

### Remuneration Report - Audited Performance Based Remuneration Short Term Incentives

The Group seeks to emphasise the payment of STI awards for the delivery of results through its STI Scheme. The objective of the reward scheme is to both reinforce the short and long term goals of the company and to provide a common interest between management and shareholders.

The Key Performance Indicators ("KPIs") for the STIs of the MD, KMP and other managers in the Group are composed of a tailored combination covering financial and non-financial performance. Non-financial performance metrics vary by role and span of control and include metrics relating to the sales of plantation products, sales of Sandalwood products, cost control, forestry performance and interpersonal skills. Each KPI has been selected as it contributes directly to the performance and annual profitability of the Group.

For each KPI, a target objective is set at the commencement of each financial year. A summary of the measures and weightings are set out in the table below:

	Financial KPI's		Non-financial KPI's
	100% Budget Cash EBITDA	100% Budget Net Profit after Tax	Refer below
Managing Director	25%	25%	50%
Executives	0 - 25%	0 - 25%	0 - 50%

Group Cash EBITDA (refer to Company Performance, Shareholder Wealth and Director and Executive Remuneration) and net profit after tax (adjusted for unrealised foreign currency movements) are the measures against which management and the Board assess the short-term financial performance of the Group. Both measures were satisfied in 2016.

The non-financial measures in the STI plan, that were applied to the KMP's according to their roles in the organisation, included the following:

Non-financial measure	Overview and objective
Forestry Performance	<ul style="list-style-type: none"> <li>- Specific measurement targets based on an annual inventory and measurement</li> <li>- Annualised mortality in the year: on target at less than 1.0%</li> <li>- Mortality in the first year from 2015 plantings: above target at 98%</li> </ul>
OHS&E	<ul style="list-style-type: none"> <li>- Specific measurement targets for minimising safety incidents</li> <li>- KPI's aligned to reducing claims</li> </ul>
People Management	<ul style="list-style-type: none"> <li>- Performance metrics surrounding staff retention and development</li> <li>- Clearly aligned leadership and development criteria</li> </ul>
Stakeholder Relationships	<ul style="list-style-type: none"> <li>- Qualitative measures surrounding Board and senior management communications</li> <li>- Management of external relationships such as investor, and customer relations</li> <li>- KPI's aligned to customer relationships</li> </ul>
Compliance & Reporting	<ul style="list-style-type: none"> <li>- Specific measures surrounding compliance with policies, and adherence with regulatory requirements</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>- Specific measures surrounding the environment and plantation health objectives</li> </ul>
Product Development	<ul style="list-style-type: none"> <li>- Development and completion of trials of pharmaceutical products</li> <li>- Four Rx trials underway: on target and pending trial results</li> </ul>
Sales of Plantation Products	<ul style="list-style-type: none"> <li>- Achieve targeted institutional plantation sales: on target</li> <li>- Achieve targeted retail plantation sales: on target</li> </ul>
Development of end markets for Sandalwood	<ul style="list-style-type: none"> <li>- Enter into new supply agreements which broaden the distribution of the Group's sandalwood products: ahead of target</li> </ul>

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

## DIRECTORS' REPORT

### Remuneration Report - Audited

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

At the end of 30 June 2016, 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 2016 and determined the percentage of STI that was payable. As part of this assessment, the Board has selectively applied its absolute discretion to determine the outcome under the STI plan. The Board has applied its discretion to both increase and decrease STI awards based on significant individual over or under performance.

STIs will be paid in connection with activities undertaken in the 30 June 2016 financial year and total \$1.522m (2015: \$1.066m) of which \$0.462m relates to KMPs. These STIs will be paid in September 2016.

### Long Term Incentives

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

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

The primary objectives of the LTIP are to:

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

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

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

The vesting conditions will be measured and tested over a vesting period determined by the Board, which is currently four years.

For the first grant under this Plan issued in 2015, grants were made in two equal tranches, one with a performance period of three years (2017 Performance Rights: 1 July 2014 – 30 June 2017) and the other with a performance period of four years (2018 Performance Rights: 1 July 2014 – 30 June 2018).

For the performance rights issued under this Plan in 2016, grants were made in one tranche with a performance period of four years (2019 Performance Rights: 1 July 2015 – 30 June 2019).

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

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

## DIRECTORS' REPORT

### Remuneration Report - Audited

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

- (1) Absolute Total Shareholder Return ("TSR") – 50% of performance rights will be subject to the Company's absolute TSR growth performance. TSR calculates the return shareholders would earn if they held a notional number of shares over a period of time, and measures the growth in the TFS share price together with the value of dividends during the period, assuming that all those dividends were re-invested into new shares.
- (2) Absolute EPS – 50% of performance rights will be subject to the Company's absolute cash EPS growth performance (refer to comments below in relation to 2017). The Group's cash EPS is a measure of financial performance after eliminating the post-tax impact of the following:
  - Gain / (loss) on revaluation of biological assets;
  - Revenue from recognition of deferred lease and management fees;
  - Change in the fair value of land and buildings; and
  - Unrealised foreign exchange gain / (loss).

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

The performance conditions have been selected as they represent measures of long term shareholder value and long term performance and strategic direction. The applicable basic cash EPS and TSR performance targets and relevant vesting schedules are the same for all participants in the LTIP. The percentage of performance rights subject to the TSR hurdle and EPS hurdle that vests, if any, will be determined by the Board with reference to annual TSR growth and EPS achieved over the performance period, compared to the Company's targets, as follows:

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

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

As part of the ongoing review of performance based remuneration, the Board through the Remuneration Committee has recognised that when the LTIP was introduced in 2014, the Company was in a different stage of its business life cycle (e.g., pre-harvest). Since then the business has grown substantially, completed its first commercial harvest in 2014, become an ASX300 company in 2014 and expanded into the pharmaceutical industry in 2016. This review has identified two changes to the LTIP scheme that will enhance the schemes relevance and alignment with shareholder value. Both changes will be applied to any performance rights granted in calendar year 2016 and will not be applied retrospectively to existing grants.

Firstly, the Committee has recognised that performance measures and hurdles should be revisited from time to time to reflect the current and future state of the business. In doing so, the Committee has concluded that Cash EBITDA is a more appropriate and relevant performance condition for the Company than Cash EPS. Cash EBITDA is used as the key financial indicator of TFS's performance, as illustrated by its use as the lead financial metric in all internal and external reporting to Board and shareholders.

Secondly, the review concluded that the period over which the vesting conditions are tested be reduced from four to three years, with a one year holding lock applied to any shares that vest after the three-year period. This is intended to increase the relevance of the scheme to enhance the contribution of the scheme to the retention and reward of staff. The inclusion of the holding lock of one year will ensure that there is no dilution to the long term nature of the LTIP.

### Company Performance, Shareholder Wealth and Director and Executive Remuneration

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

## DIRECTORS' REPORT

### Remuneration Report – Audited

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

	2016	2015	2014	2013	2012
Total revenue (\$'000)	268,794	325,156	220,417	187,688	126,838
Net profit before tax (\$'000)	122,798	159,398	117,117	79,842	36,006
Net comprehensive income after tax (\$'000)	90,385	113,650	82,802	55,729	25,878
Cash EBITDA <sup>(i)</sup>	62,162	57,533	51,400	51,804	23,780
Share price at start of the year (\$)	1.61	1.65	0.51	0.50	0.89
Share price at end of the year (\$)	1.41	1.61	1.65	0.51	0.50
Interim fully franked dividend (cents)	-	-	-	-	-
Final fully franked dividend (cents)*	3.00	3.00	3.00	3.00	-
Basic earnings per share (cents)	25.66	34.66	28.93	19.93	9.29
Diluted earnings per share (cents)	25.01	33.30	28.93	19.93	9.29

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

<sup>(i)</sup> Reconciliation of Cash EBITDA

#### (i) Reconciliation of Cash EBITDA

	2016 (\$m)	2015 (\$m)
<b>Profit before income tax expense</b>	122.8	159.4
Depreciation and amortisation	11.2	8.6
Finance costs and interest received	29.1	21.2
<b>EBITDA</b>	<b>163.1</b>	<b>189.2</b>
Biological asset fair value movement (including FX gain)	(76.9)	(143.8)
Revenue from deferred fees	(16.2)	(26.9)
Unrealised FX loss on Senior Secured notes	4.8	39.0
Gain on settlement of trade debtor	(0.2)	-
Gain on acquisition of controlling interest in Santalis and ViroXis	(17.2)	-
Movement in contingent consideration	(1.9)	-
Change in fair value of land and buildings	6.7	-
<b>Cash EBITDA</b>	<b>62.2</b>	<b>57.5</b>

### Employment details of Members of Key Management Personnel and Other Executives

The following table outlines the proportion of maximum STI earned and forfeited in relation to the 2016 financial year.

Name	Proportion of maximum STI earned in FY16 <sup>(i)</sup>	Proportion of maximum STI forfeited in FY16
F. Wilson	100%	0%
P. Castella	0%	100%
Q. Megson	0%	100%
A. Stevens	100%	0%
I. Thompson	100%	0%

<sup>(i)</sup> The maximum entitlement is 30% of Total Fixed Remuneration based on annual performance. The minimum total value of the STI for future financial years is nil if relevant performance conditions are not satisfied. An estimate of the maximum possible total value in future financial years is 30% of Total Fixed Remuneration of the relevant performance year.

The employment terms and conditions of KMP and Executives are formalised in contracts of employment. A contracted person deemed employed on a permanent basis may terminate their employment by providing notice in accordance with their contracted terms. Current notice period for Mr Wilson is 20 weeks and 12 weeks for Mr Megson, Mr Stevens and Mr Thompson. No amounts for termination have been agreed or contracted for any KMP, other than for Dr Castella who would be due up to 12 months remuneration for termination of his employment contract.

## DIRECTORS' REPORT

### Remuneration Report - Audited Option and Rights Holdings of KMP

	Balance 1 July 2015	Granted as remuneration	Options exercised <sup>(i)</sup>	Net change other	Balance 30 June 2016	Vested at 30 June 2016	
						Exercisable	Not exercisable
<b>Director</b>							
F. Wilson	512,667	250,594	-	-	763,261	-	-
<b>Other KMP</b>							
P. Castella	-	-	-	-	-	-	-
Q. Megson	419,618	49,164	(118,000)	-	350,782	200,000	-
A. Stevens	188,384	100,806	-	-	289,190	-	-
I. Thompson	125,783	60,855	-	-	186,638	-	-

(i) Exercise of the option under the non-recourse loan arrangements issued under a previous employee share plan.

### Directors and Key Management Personnel Remuneration Details of Remuneration for the Year Ended 30 June 2016

	Short Term Benefits			Post- Employment	Equity	Other Long Term Benefits	Total	Performance related
	Cash, salary & fees	Short term incentives <sup>(i)</sup>	Other cash benefit	Super- annuation	Share based payment	Leave		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>								
Mr D Gooding	<sup>(ii)</sup> 267,652	-	-	25,415	-	-	293,067	-
Mr F Wilson	731,747	225,000	-	112,267	156,985	21,373	1,247,372	32.9
Mr J Matthys	82,192	-	-	7,808	-	-	90,000	-
Mr J Groppoli	97,717	-	-	9,283	-	-	107,000	-
Ms G Franklin	86,758	-	-	8,242	-	-	95,000	-
Mr M Kay	86,758	-	-	8,242	-	-	95,000	-
	1,352,824	225,000	-	171,257	156,985	21,373	1,927,439	
<b>Other Key Management Personnel</b>								
Dr P Castella	<sup>(iii)</sup> 629,101	-	-	-	-	-	629,101	-
Mr Q Megson	239,270	-	-	22,235	29,637	8,355	299,497	-
Mr A Stevens	490,600	147,883	-	74,429	55,978	-	768,890	28.3
Mr I Thompson	296,169	89,275	-	44,932	36,684	8,775	475,835	28.8
	1,655,140	237,158	-	141,596	122,299	17,130	2,173,323	
<b>Total</b>	3,007,964	462,158	-	312,853	279,284	38,503	4,100,762	

(i) The STI awards with respect to 2016 will be paid in September 2016.

(ii) This includes an additional fee paid to Mr. Gooding during the year of \$85,000 in consideration of duties performed outside of what would reasonably be expected by a non-executive chairman.

(iii) Dr Castella was classified as KMP on acquisition of Santalis and ViroXis. His salary is paid in USD and converted at the average spot rate each month. This equated to an average spot rate of \$1.373 AUD/USD over the period.

## DIRECTORS' REPORT

### Remuneration Report – Audited

#### Details of Remuneration for the Year Ended 30 June 2015

	Short Term Benefits			Post-Employment	Equity	Other Long Term Benefits	Total	Performance related
	Cash, salary & fees	Short term incentives	Other cash benefit	Super-annuation	Share based payment	Leave		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>								
Mr D Gooding	113,453	-	-	10,773	-	-	124,226	-
Mr F Wilson	712,638	225,000	-	67,701	85,217	29,463	1,120,019	30.4
Mr J Matthys	70,067	-	-	6,656	-	-	76,723	-
Mr J Groppoli	56,365	-	-	5,355	-	-	61,720	-
Ms G Franklin	45,662	-	-	4,338	-	-	50,000	-
Mr M Kay	33,482	-	-	-	-	-	33,482	-
Mr P O'Connor <sup>(iii)</sup>	70,767	-	-	6,722	-	-	77,489	-
Mr R Eacott <sup>(ii)</sup>	22,883	-	-	2,174	-	-	25,057	-
Mr S Atkinson <sup>(i)</sup>	13,729	-	-	1,304	-	-	15,033	-
	1,139,046	225,000	-	105,023	85,217	29,463	1,583,749	
<b>Other Key Management Personnel</b>								
Mr Q Megson	234,061	-	-	22,235	16,899	65,752	338,947	-
Mr A Stevens	479,919	144,983	-	44,592	31,207	-	700,701	27.1
Mr I Thompson	289,721	87,524	-	27,524	20,919	22,208	447,896	27.4
	1,003,701	232,507	-	94,351	69,025	87,960	1,487,544	
<b>Total</b>	<b>2,142,747</b>	<b>457,507</b>	<b>-</b>	<b>199,374</b>	<b>154,242</b>	<b>117,423</b>	<b>3,071,293</b>	

<sup>(i)</sup> Mr Atkinson resigned as a Director on 2 September 2014.

<sup>(ii)</sup> Mr Eacott resigned as a Director on 28 November 2014.

<sup>(iii)</sup> Mr O'Connor resigned as a Director on 15 December 2014.

#### Share Based Payments Granted as Compensation for the Current Financial Year

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

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

## DIRECTORS' REPORT

### Remuneration Report - Audited

#### Performance Rights Issued in the Current Financial Year

The terms and conditions of performance rights granted to KMP during the year ended 30 June 2016 affecting remuneration in the current or future reporting periods are set out in the following table:

Executive Director	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Fair Value in Share Based Payments <sup>3</sup>	Number vested during the year
Mr F Wilson	2019 Perf Right	13-Nov-15	30-Jun-19 <sup>1</sup>	13-Nov-22	\$0.91	125,297	\$19,862	-
	2019 Perf Right	13-Nov-15	30-Jun-19 <sup>2</sup>	13-Nov-22	\$1.69	125,297	\$26,469	-
Other KMP	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Fair Value in Share Based Payments <sup>3</sup>	Number vested during the year
Mr Q Megson	2019 Perf Right	18-Dec-15	30-Jun-19 <sup>1</sup>	18-Dec-22	\$0.78	24,582	\$2,911	
	2019 Perf Right	18-Dec-15	30-Jun-19 <sup>2</sup>	18-Dec-22	\$1.55	24,582	\$4,763	
Mr A Stevens	2019 Perf Right	18-Dec-15	30-Jun-19 <sup>1</sup>	18-Dec-22	\$0.78	50,403	\$5,969	
	2019 Perf Right	18-Dec-15	30-Jun-19 <sup>2</sup>	18-Dec-22	\$1.55	50,403	\$9,766	
Mr I Thompson	2019 Perf Right	18-Dec-15	30-Jun-19 <sup>1</sup>	18-Dec-22	\$0.78	30,428	\$3,603	
	2019 Perf Right	18-Dec-15	30-Jun-19 <sup>2</sup>	18-Dec-22	\$1.55	30,427	\$5,895	

(1) TSR Performance hurdle - Absolute TSR – performance rights subject to the Group's growth in Total Shareholder Return ("TSR") over the period 1 July 2015 to 30 June 2019.

(2) EPS Performance hurdle - Basic cash EPS – performance rights will be subject to the Group's basic cash EPS growth performance over the period 1 July 2015 to 30 June 2019.

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

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

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.15%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

## DIRECTORS' REPORT

### Remuneration Report - Audited

#### Performance Rights Issued in the Previous Financial Year

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

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

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

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

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



## DIRECTORS' REPORT

### Remuneration Report - Audited

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

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date (13 November 2015 and 18 December 2015) was 2.15% and 2.05%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

### Options Issued Through the Share Acquisition Plan in the Current Financial Year

No shares were issued under the LTIP share acquisition plan in 2016.

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

	Number of options exercised	Value of options exercised at the exercise date(i)	Amount paid on exercise	Value of options lapsed at the grant date
Name		\$	\$	\$
Mr Q Megson	118,000	189,779	<sup>(i)</sup> 66,179	-

(i) Determined at the time of exercise at the intrinsic value.

There were no options issued through the Share Acquisition Plan in the 2015 financial year.

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

### Key Management Personnel Equity Holdings

#### Interest of Key Management Personnel (KMP Shareholding)

30 June 2016	Balance at the beginning of year	Received as compensation	Options exercised	Net change other	Balance at end of year
Directors	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Mr D Gooding	100,000	-	-	107,913	207,913
Mr F Wilson	47,551,493	-	-	1,258,792	48,810,285
Mr J Matthys	3,342,500	-	-	5,618	3,348,118
Mr J Groppoli	-	-	-	-	-
Ms G Franklin	-	-	-	197,368	197,368
Mr M Kay	-	-	-	164,474	164,474
Other KMP					
Dr P Castella <sup>(a)</sup>	-	-	-	2,153,686	2,153,686
Mr Q Megson	-	-	118,000	(118,000)	-
Mr A Stevens	-	-	-	-	-
Mr I Thompson	1,815	-	-	-	1,815
	50,995,808	-	118,000	3,769,851	54,883,659

<sup>(a)</sup> Dr Castella became a member of KMP on acquisition of Santalis in July 2015.

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

## DIRECTORS' REPORT

### Remuneration Report - Audited Loans to Key Management Personnel

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

#### *Terms and conditions of loans to KMP and their related parties:*

Loans to senior executives are charged interest at normal commercial terms and conditions that are no more favourable than those available to other parties. The average commercial rate of interest during the year was 9.1% (2015: 8.3%).

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

2016	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Balance at the end of year	Interest charged	No. in group
	\$	\$	\$	\$	\$	\$	
Directors – Loans	12,061,500	-	(725,166)	-	11,336,334	483,707	1
Other key management – 12 month payment term	626,636	46,197	(551,935)	-	120,898	36,634	2
Total	12,688,136	46,197	(1,277,101)	-	11,457,232	520,341	

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

<sup>(i)</sup> Relates to employees who became KMP on 1 July 2014.

<sup>(ii)</sup> Amount relates to a director who resigned.

## DIRECTORS' REPORT

### Remuneration Report - Audited

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

The Group provided several of its KMP with loans at 7.52% average interest rate which is comparable to the average commercial rate of interest.

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

2016	Nature of loan	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Balance at the end of year	Interest charged
		\$	\$	\$	\$	\$	\$
F Wilson	Loans <sup>(i)</sup>	12,061,500	-	(725,166)	-	11,336,334	483,707
	Terms <sup>(ii)</sup>	-	-	-	-	-	-
I Thompson	Loans <sup>(i)</sup>	540,080	-	(540,080)	-	-	29,135
	Terms <sup>(ii)</sup>	-	-	-	-	-	-

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

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

2015	Nature of loan	Balance at beginning of the year	Amount advanced	Principal repayments	Sale of loan	Balance at end of the year	Interest charged
		\$	\$	\$	\$	\$	\$
F Wilson	Loans <sup>(i)</sup>	13,267,650	-	(1,206,150)	-	12,061,500	302,364
	Terms <sup>(ii)</sup>	-	-	-	-	-	-
R Eacott	Loans <sup>(i)</sup>	129,936	-	(129,936)	-	-	-
	Terms <sup>(ii)</sup>	22,743	12,174	(34,489)	-	428	-
I Thompson	Loans <sup>(i)</sup>	493,523	46,557	-	-	540,080	46,557
	Terms <sup>(ii)</sup>	-	-	-	-	-	-

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

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

#### Other Transactions with Director Related Entities:

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

- (i) Frank Wilson was a principal of Wilson & Atkinson and was a part owner in the business until it ceased trading in the year. This company provided legal services on commercial terms to the Group. During the year ending 30 June 2016, an amount of \$159,673 (2015: \$346,947) was charged to the Group. Frank Wilson neither directly nor indirectly received any financial benefit from these payments.
- (ii) Other transactions with Directors as plantation investors (on terms no more favourable than other plantation investors).
  - Total investments by Dalton Gooding during the year ended 30 June 2016 were nil (2015: \$275,000 GST inclusive). No rebates were applied against this investment. No loans were entered into as the investment was settled in cash by 30 June 2015; and
  - Project lease and management fees paid by Directors during the year were \$1,821,722 GST inclusive (2015: \$6,738 GST inclusive).
- (iii) During the year, TFS Corporation Ltd acquired the remaining 50% of the shares in Santalis Pharmaceuticals, Inc. and 100% in ViroXis Corporation which is 19.1% and 4.9% owned respectively by Dr. Paul Castella. Refer to Note 40 for details of the acquisition.

## **DIRECTORS' REPORT**

### **Remuneration Report - Audited Services From Remuneration Consultants**

The Remuneration Committee engaged Ernst & Young in 2015 and 2016 as the remuneration consultant to the Board to provide recommendations in regard to the LTIP. Ernst & Young was paid \$15,000 in 2016 (2015: \$46,865) for this remuneration structure advice.

In addition, the Remuneration Committee engaged an independent remuneration consultant as an adviser to the Board to review the amount and elements of senior management's remuneration. The consultant was paid \$20,000 in 2016 (2015: \$4,716) for this remuneration advice.

The Remuneration Committee is satisfied that all contact with the Company were at arm's length from the MD and other KMP and the consultants had direct access to the Remuneration Committee and the remuneration recommendations received from the consultants were made free from undue influence.

### **END OF REMUNERATION REPORT**

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

A handwritten signature in black ink, consisting of a large loop followed by a horizontal stroke.

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**Dalton Gooding**  
**Chairman of the Board**

Dated in Perth this 25<sup>th</sup> day of August 2016

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of T.F.S. Corporation Ltd, I state that:

In the opinion of the Directors:

- (a) the financial statements and Notes of T.F.S. Corporation Ltd for the financial year ended 30 June 2016 are in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii. complying with Accounting Standards and the Corporations Regulations 2001;
- (b) the financial statements and Notes also comply with International Financial Reporting Standards as disclosed in Note 1; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

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 30 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.

On behalf of the Board



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**Dalton Gooding**  
**Chairman of the Board**

Dated in Perth this 25<sup>th</sup> day of August 2016

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$'000	2015 \$'000
Revenue	2	191,702	178,107
Other income	2	77,092	147,049
Direct plantation and other operating expenses		(30,778)	(27,286)
Raw materials and consumables used		(15,677)	(14,356)
Cost of land sold		(6,098)	(6,205)
Salaries and employees benefits expense		(32,919)	(24,744)
Sales and marketing expenses		(7,723)	(7,056)
Corporate and other administration expenses		(18,907)	(16,281)
Depreciation and amortisation expenses		(11,163)	(8,575)
Finance costs		(30,397)	(22,450)
Unrealised foreign exchange gain / (loss)	3	(4,759)	(38,979)
Change in fair value of land and buildings	10	(6,661)	-
Fair value gain on biological assets – external MIS growers	11	21,695	34,226
Fair value loss on external MIS grower liabilities	19	(21,695)	(34,226)
Share of net profits of associates		-	174
Fair value gain/ (loss) on contingent consideration		1,909	-
Gain on acquisition of controlling interests in subsidiaries	40	17,177	-
<b>Profit before income tax expense</b>		<b>122,798</b>	<b>159,398</b>
Income tax expense	4	(32,655)	(46,377)
<b>Profit for the period</b>		<b>90,143</b>	<b>113,021</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit and loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		2,029	295
<i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods:</i>			
Revaluation of land and buildings (net of tax)		(1,787)	334
<b>Total comprehensive income for the period</b>		<b>90,385</b>	<b>113,650</b>
<b>Earnings per share</b>			
Basic earnings per share (cents per share)	26	25.66	34.66
Diluted earnings per share (cents per share)	26	25.01	33.30

The accompanying Notes form part of these financial statements

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016**

	Note	2016 \$'000	2015 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	23	106,993	72,674
Trade and other receivables	5	85,097	93,272
Inventories	6	24,985	23,660
Biological assets	11	28,247	17,564
Other financial assets	7	2,904	3,000
<b>TOTAL CURRENT ASSETS</b>		<b>248,226</b>	<b>210,170</b>
<b>NON CURRENT ASSETS</b>			
Trade and other receivables	8	54,554	43,540
Other financial assets	9	7,872	6,949
Property, plant and equipment	10	161,713	145,845
Biological assets	11	742,961	623,666
Intangible assets and goodwill	12	265,218	114,379
Other assets	13	11,414	8,511
<b>TOTAL NON CURRENT ASSETS</b>		<b>1,243,732</b>	<b>942,890</b>
<b>TOTAL ASSETS</b>		<b>1,491,958</b>	<b>1,153,060</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	49,353	55,089
Financial liabilities	16	14,048	9
Current tax liabilities	4d	7,333	7,772
Provisions	15	2,322	2,659
Unearned income	17	22,347	30,361
<b>TOTAL CURRENT LIABILITIES</b>		<b>95,403</b>	<b>95,890</b>
<b>NON CURRENT LIABILITIES</b>			
Provisions	18	3,291	1,816
Financial liabilities	19	442,105	349,384
Deferred tax liabilities	4	198,994	127,367
Unearned income	20	4,943	4,080
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>649,333</b>	<b>482,647</b>
<b>TOTAL LIABILITIES</b>		<b>744,736</b>	<b>578,537</b>
<b>NET ASSETS</b>		<b>747,222</b>	<b>574,523</b>
<b>EQUITY</b>			
Issued capital	21	280,827	188,948
Asset revaluation reserve	22	6,990	8,776
Foreign currency translation reserve	22	2,300	271
Option/Warrant reserve	22	10,078	9,403
Retained earnings		447,027	367,125
<b>TOTAL EQUITY</b>		<b>747,222</b>	<b>574,523</b>

The accompanying Notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2016**

	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 July 2015</b>	188,948	18,450	367,125	574,523
Profit for the period	-	-	90,143	90,143
Other comprehensive income	-	243	-	243
<b>Total comprehensive income for the period</b>	-	243	90,143	90,386
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Shares issued during the period	91,146	-	-	91,146
Shares issued under the Dividend Reinvestment Plan	2,661	-	-	2,661
Costs of issuing shares during the year	(1,928)	-	-	(1,928)
Share based payments	-	675	-	675
Dividends recognised for the period	-	-	(10,241)	(10,241)
<b>Balance at 30 June 2016</b>	280,827	19,368	447,027	747,222
<b>Balance at 1 July 2014</b>	184,964	17,501	263,862	466,327
Profit for the period	-	-	113,021	113,021
Other comprehensive income	-	629	-	629
<b>Total comprehensive income for the period</b>	-	629	113,021	113,650
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Shares issued during the period	1,420	-	-	1,420
Shares issued under the Dividend Reinvestment Plan	2,564	-	-	2,564
Share based payments	-	320	-	320
Dividends recognised for the period	-	-	(9,758)	(9,758)
<b>Balance at 30 June 2015</b>	188,948	18,450	367,125	574,523

The accompanying Notes form part of these financial statements



**CONSOLIDATED STATEMENT OF CASHFLOWS  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$'000	2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from operations		145,463	140,426
Payments to suppliers and employees		(116,145)	(103,244)
Payments for land held for resale		(3,346)	(8,804)
Repayment of grower loans		24,961	18,277
Interest received		3,623	3,481
Finance charges		(31,211)	(19,617)
Income tax refund paid		(3,099)	(5,948)
<b>Net cash generated by operating activities</b>	23	20,246	24,571
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from the sale of property, plant and equipment		289	1,304
Payments for plant and equipment		(22,020)	(19,573)
Payments for investment in own plantation		(34,115)	(45,199)
Payments for land development		(3,750)	(1,345)
Receipts from investments		582	1,331
Payments for investments		(1,038)	-
Receipts from MIS custodian accounts		3,000	3,239
Payments to MIS custodian accounts		(3,371)	(3,520)
Payments for land and buildings		(16,686)	(7,096)
Acquisition of subsidiaries (net of cash acquired)	40c(i)	(2,971)	-
<b>Net cash used in investing activities</b>		(80,080)	(70,859)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		(9)	(16)
Proceeds from borrowings		36,007	35,111
Proceeds from issue of shares		65,696	2,472
Dividends paid		(7,541)	(7,186)
<b>Net cash generated by financing activities</b>		94,153	30,381
<b>Net increase/(decrease) in cash held</b>		34,319	(15,907)
Cash at the beginning of the period		72,674	88,581
<b>Cash at the end of the period</b>		106,993	72,674

The accompanying Notes form part of these financial statements

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report covers T.F.S. Corporation Ltd (“TFS”) and its controlled entities (“the Group”). TFS is a for-profit listed public company, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group is principally engaged in the promotion of Sandalwood investments and the management of Sandalwood plantations. Information on the Group’s structure is provided in Note 28 and information on other related party relationships is provided in Note 37.

The financial report was authorised for issue on the 25<sup>th</sup> of August 2016 by the Board of Directors.

**Basis of Preparation**

These general purpose financial statements for the year ended 30 June 2016 have been prepared in accordance with requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report also complies with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

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

The Directors make estimates, judgements and assumptions based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group. The judgements, estimates and assumptions applied in the current financial statements, including the key sources of estimation uncertainty are set out in Note 1(z).

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

The Group’s financial statements have been prepared on the basis of accounting policies consistent with those applied in the financial statements for the year ended 30 June 2015, except for the implementation of the following amendments which were applied for the first time in 2016 with no material impact on the financial position or financial performance of the Group:

Reference	Title	Application date of standard	Application date for Group
AASB 2015-3	<i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i>  The Standard completes the AASB’s project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	1 July 2015

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Consolidation**

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

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

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Summary of significant Accounting Policies**

**(a) Business Combinations and Goodwill**

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

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

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

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

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

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

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

**(b) Cash and Cash Equivalents**

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(d) Inventories**

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

The cost of raw materials is determined using the weighted average cost method. 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.

Land held for sale in the ordinary course of business within the next 12 months is classified as inventory and measured at cost.

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

**(e) Impairment of Non-Financial Assets**

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

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

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

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

**(f) Property, Plant and Equipment**

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

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

*Plant & Equipment*

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

*Depreciation*

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

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 value and useful life is reviewed, and adjusted if appropriate, at the end of each reporting period.

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

*Property*

Freehold land and buildings are shown at their fair value (refer Note 1(y)), based on periodic, but at least three to five years, valuations by external independent valuers. CBRE provided an unencumbered value assessment of approximately 71% of the Group's properties during 2016 which was adopted by the Group. Those properties not independently valued in the current year were valued with regard to properties with similar characteristics including location, nature or condition. Historical valuations, comparable market transactions and other inputs were considered. The unencumbered value of each property within the portfolio was then adjusted using a discounted cash flow (DCF) method to factor in encumbrances which apply to certain properties. The encumbrances arise as the properties are being used for Sandalwood plantations and therefore cannot be used for any other activity until trees have been harvested.

The fair value of the land held has been determined by the independent valuers and the directors by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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

**(g) Biological Assets**

The Group has interests in Sandalwood tree plantations (the biological assets) through plantation areas established and maintained on its own account and interests in some of the managed investment schemes. The Sandalwood trees are measured at the Director's assessment of their fair value less cost to sell at each reporting date. The fair value is determined as the net present value of the expected future cash flows at harvest (discounted at a risk adjusted rate). Costs incurred in maintaining or enhancing trees are capitalised when incurred and are classified as additions at cost before the determination of the net increment in fair values.

Net increments or decrements in the fair value less cost to sell of the Sandalwood trees are recognised as income or expenses in profit or loss, determined as the difference between the total fair values less cost to sell of the trees recognised as at the beginning of the year, adjusted for costs incurred in maintaining or enhancing trees which are capitalised, and the total fair values less cost to sell of the trees recognised as at the reporting date.

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(h) Trade and Other Payables**

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

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

**(i) Leases**

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

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

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

**(j) Revenue and Other Income**

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

*Operating Revenue*

- Establishment fee revenue in connection with the sale of timber lots under a MIS project or under other timber lot establishment contracts are recognised on a percentage of completion basis by reference to the proportion of establishment work performed at the balance sheet date. In arriving at the proportion of work performed up to the balance sheet date, all directly attributable work is assessed including activities relating to land procurement and development, seed collection and propagation, planting, and other establishment activities;
- Lease and management fees are recognised as revenue as the management services are provided in the period to which they relate, while lease fees are recognised on a straight line basis over the term of the lease;
- Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; and
- Land sales are brought to account following the signing of a contract of sale once there are no substantive conditions outstanding and the risks and rewards of ownership are transferred to the buyer.

*Interest Revenue*

Interest revenue is recognised using the effective interest rate method.

*Dividend Revenue*

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

**(k) Unearned Income**

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(I) Income Tax**

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

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

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

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

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

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

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

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

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

**Tax Consolidation**

T.F.S. Corporation Ltd, the head entity, and its wholly owned Australian subsidiaries have formed a tax consolidated group under the Tax Consolidation Regime. The Group nominated to become consolidated for taxation purposes on 1 July 2003.

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

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**(n) Employee Benefits**

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

Employee benefits not expected to be wholly settled within one year are classified as long term benefits and have been measured at the present value of the estimated future cash outflows to be made for these benefits using the projected unit credit method.

Contributions are made by the Group to employee superannuation funds, defined contribution plans, 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.

**(o) Employee Benefits – Share Based Payment**

*Equity settled transactions*

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

The Group expenses equity-settled share based payments such as share and performance rights issues after ascribing a fair value to the shares and/or performance rights issued. The fair value of option and share plan issues of option and share plan shares are recognised as an expense together with a corresponding increase in the share based payments reserve or the share option reserve in equity over the vesting period.

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; and
- (ii) The expired portion of the vesting period.

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

The proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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

**(p) Earnings per share**

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

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

**(q) Financial Instruments**

**Initial recognition and measurement**

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

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

**Financial assets - Initial recognition and subsequent measurement**

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

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

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

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

*Financial assets at fair value through profit and loss*

A financial asset is classified in this category when they are either held for trading for the purpose of short term profit taking, derivatives not designated as effective hedging instruments, or when they are designated at fair value through profit or loss. Financial instruments are designated at fair value through profit or loss 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 using the effective interest rate method ("EIR").

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

*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 that are classified as current assets.

**Impairment of financial assets**

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

**Derecognition of financial assets**

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

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

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

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

**Financial liabilities - Initial recognition and subsequent measurement**

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

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

*Financial Liabilities at fair value through profit or loss*

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

*Loans & borrowings*

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(r) Investments in Associates**

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

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

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

**(s) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised in finance costs.

**(t) Borrowing costs**

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

**(u) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. During the year, the Company changed the classification of its contractual arrangement with Jarh Tree Co Pty Ltd to better reflect the nature of the investment. The Church Commissioners for England are linked with Jarh Tree Co Pty Ltd, and previously this arrangement was accounted for using the equity method. The Group now recognises its direct interest in biological assets and freehold land arising under the contract. This change in classification has had no impact on the net profit after tax for the period or retained earnings at 30 June 2015 and 2016.

**(v) Intangibles**

*Supply Agreements*

Supply Agreements are recognised at cost of acquisition. The supply agreements have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. The supply agreements will be amortised from the commencement of supply over the life of the agreement, which range from 10 to 20 years.

*Research and Development*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

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, which range from 10 to 20 years.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

*Goodwill*

Goodwill is carried at cost less impairment losses written off.

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.

Refer to Note 1(a) for information on the goodwill policy adopted by the Group for acquisitions.

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

*Deferred lease & management fees*

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

The deferred lease & management fees are calculated as the amount of lease and/or management fees that would have been received up to balance sheet date by the Company under the annual payment option had they not been deferred. The balance of the deferred fees should however not exceed the sum of the net present value of future revenue, which is calculated by multiplying the expected net harvest proceeds from the investor's plantations by the Group's 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 12.

Deferred fees are derecognised once realised post-harvest.

**(w) Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each entity in the Group is determined 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.

**Foreign Operations**

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(x) Rounding of Amounts**

The company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

**(y) 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 the fair value hierarchy based on the lowest input used in the valuation techniques as follows:

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

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

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

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

- Note 10: Property, Plant and Equipment; and
- Note 11: Biological Assets; and
- Note 40: Business Combinations

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 2016, the carrying amounts of such receivables, other non-current financial assets and financial liabilities, were deemed to not be materially different from their calculated fair values (all transactions are done at arm's length).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(z) Significant accounting judgements, estimates and assumptions**

The Directors make estimates and judgements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group.

*Key Judgement – Control of other entities*

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

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

*Key Judgement – Put options*

The Group entered into sales transactions in prior years with select sophisticated growers and an institutional investor. A term included in these contracts is the option held by these investors to return these trees to the Group at a predetermined date and exercise price. This has been disclosed in Note 33 (Contingent Liabilities). The Group has considered it unlikely that the option will be exercised and has recognised these sales on the basis that the risk and rewards of ownership have transferred to the buyer.

*Key Judgement – Performance fees*

As part of the Group's institutional (and sophisticated investor sales) the Group will be paid a performance fee if the performance of the investment exceeds certain levels. Judgement is required in determining the likelihood of these performance fees being achieved and when revenue associated with the performance fees should be recognised. No value is attributed to these performance fees in the 2016 results as the final outcome cannot be reliably measured at this point in time.

*Key Estimate – Biological Asset valuation*

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

The Group also include assumptions on the expected future harvesting and processing (oil extraction) costs. All estimates are based on the best information currently available maximising the input of market observable data. Where there is any doubt, the Group uses the more conservative estimates.

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

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

*Key Estimate – Land valuation*

At year end the Directors are required to make an assessment as to the fair value of land held. In assessing the fair value of land held, the Directors referred to an independent market appraisal completed at the end of the 2016 financial year which covered approximately 71% of the Group's properties and was adopted by the Group. Those properties not independently valued in the current year were valued with regard to properties with similar characteristics including location, nature or condition. Historical valuations, comparable market transactions and other inputs were considered. Refer to Note 10(d) for details of assumptions and potential impact of changes in assumptions.

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

*Key Estimate – Taxation*

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

*Key Estimate – Operating Revenue*

As detailed in Note 1(j) the Group recognises establishment fee revenue 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 sheet date.

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

*Key Estimate – Contingent consideration arising from business combination*

As part of the acquisition of Santalis and ViroXis (refer Note 40), part of the total consideration is contingent, based on performance of the acquired entities. A probability weighted discounted cash flow has been used to determine the fair value of the contingent consideration, net of the fair value of the option to settle in shares.

*Key Judgement and Estimate – Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. In determining fair value less costs of disposal, a discounted cash flow model is used based on a methodology consistent with that applied by the Group in determining the value of potential acquisition targets, maximising the use of market observed inputs. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next 5 to 17 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the sandalwood products and pharmaceutical CGUs, including the sensitivity analyses of key assumptions, are disclosed and further explained in Note 12.

Following our impairment review, no impairment charges were recorded in respect of the CGUs in the Group. The recoverable amount of the plantation management CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a 5 to 17-year period. The pre-tax discount rate applied to cash flow projections is 11.0% (2015: 11.0%) and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate (2015: 3.0%) that is the same as the long-term average growth rate for the sandalwood plantation industry.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

*Key Judgement and Estimate – Deferred Lease and Management Fees*

As detailed in Note 1(v) the Group recognises deferred lease and management fees as an intangible asset in the financial statements as it does not represent an unconditional right to receive cash as future services need to be provided.

Deferred fees are calculated as the amount of lease and/or management fees that would have been received up to balance sheet date by the company under the annual payment option had they not been deferred. The balance of the deferred fees should however not exceed the sum of the net present value of future revenues, which is calculated by multiplying the expected gross harvest proceeds from the investors' plantations by the Group's proportional entitlement to those revenues as agreed with the investors. The expected gross harvest proceeds from the investors' plantations is determined using key estimates for biological asset valuation for the investors' plantations. The carrying value of deferred lease and management fees at year end is shown in Note 12.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015  
NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(aa) New Accounting Standards for Application in Future Periods**

A number of new and amended accounting standards and interpretations are effective for annual periods beginning after 1 July 2016, 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. The Group is still assessing the impact of AASB 9, AASB 15 and AASB 16 and their impact has yet to be determined.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.</p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis.</p> <p>Amendments to AASB 9 (December 2009 &amp; 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The main changes are described below.</p> <ol style="list-style-type: none"> <li>Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</li> <li>Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</li> <li>Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</li> <li>Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> <li>► The change attributable to changes in credit risk are presented in other comprehensive income</li> <li>► The remaining change is presented in profit or loss</li> </ul> </li> </ol>	1 January 2018	1 July 2018

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

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>	1 January 2018	1 July 2018
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	<p>AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <ol style="list-style-type: none"> <li>the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i>, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and</li> <li>the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.</li> </ol>	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	<p>AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	1 July 2016
AASB 15	Revenue from Contracts with Customers	<p>AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i> and related Interpretations (Interpretation 13 <i>Customer Loyalty Programmes</i>, Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, Interpretation 18 <i>Transfers of Assets from Customers</i>, Interpretation 131 <i>Revenue—Barter Transactions Involving Advertising Services</i> and Interpretation 1042 <i>Subscriber Acquisition Costs in the Telecommunications Industry</i>). AASB 15 incorporates the requirements of IFRS 15 <i>Revenue from Contracts with Customers</i> issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases</p>	1 January 2018	1 July 2018

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

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

Reference	Title	Summary	Application date of standard	Application date for Group
		<p>or financial instruments).The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer</p> <p>(b) Step 2: Identify the performance obligations in the contract</p> <p>(c) Step 3: Determine the transaction price</p> <p>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</p> <p>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p> <p>AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i> amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.</p>		
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <p>(a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and</p> <p>(b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.</p>	1 January 2018	1 July 2018
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i></p> <ul style="list-style-type: none"> <li>Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul>	1 January 2016	1 July 2016

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

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

Reference	Title	Summary	Application date of standard	Application date for Group
		<p>AASB 7 Financial Instruments: Disclosures:</p> <ul style="list-style-type: none"> <li>Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.</li> <li>Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure–Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134.</li> </ul> <p>AASB 119 Employee Benefits:</p> <p>Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</p>		
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>AASB 134 Interim Financial Reporting:</p> <ul style="list-style-type: none"> <li>Disclosure of information 'elsewhere in the interim financial –report' amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</li> </ul>	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	1 July 2016
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> <li>Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</li> <li>Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments) and also includes payments to</li> </ul>	1 January 2019	1 July 2019

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

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

Reference	Title	Summary	Application date of standard	Application date for Group
		<p>be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</p> <ul style="list-style-type: none"> <li>AASB 16 contains disclosure requirements for lessees.</li> </ul>		
AASB 16	Leases	<p>Lessor accounting</p> <ul style="list-style-type: none"> <li>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> <p>AASB 16 supersedes:</p> <ul style="list-style-type: none"> <li>(a) AASB 117 Leases;</li> <li>(b) Interpretation 4 Determining whether an Arrangement contains a Lease;</li> <li>(c) SIC-15 Operating Leases—Incentives; and</li> <li>(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</li> </ul> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>	1 January 2019	1 July 2019
2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$'000	2015 \$'000
<b>NOTE 2: REVENUE AND OTHER INCOME</b>			
<b>Sales revenue:</b>			
Revenue from sales and services		150,132	139,919
Revenue from land sales		8,093	7,045
Revenue from product sales		29,854	27,662
Interest received		1,198	1,215
Interest on grower loans		2,425	2,266
Total sales revenue		191,702	178,107
<b>Other income:</b>			
Loss on disposal of plant and equipment		(8)	(27)
Gain on revaluation of biological assets – TFS interest	11	76,893	143,752
Sundry		-	3,335
Gain / (loss) on settlement of trade debtor		207	(11)
Total other income		77,092	147,049
<b>Total revenue and other income</b>		<b>268,794</b>	<b>325,156</b>
	Note	2016 \$'000	2015 \$'000
<b>NOTE 3: PROFIT FOR THE YEAR</b>			
The profit from ordinary operations before income tax includes the following items of expenditure whose disclosure is relevant in explaining the financial performance of the Group:			
Borrowing and finance charges – external		30,397	22,450
Depreciation on non-current assets		9,375	7,859
Amortisation on non-current assets		1,788	716
Total depreciation and amortisation		11,163	8,575
Change in fair value of land and buildings	10	(6,661)	-
Operating lease rental		4,702	5,711
Bad debts and provision for impairment expense / (recouped) (Provision for) / reversal of impairment of deferred lease and management fees	12	(777)	1,114
Employee benefits – superannuation		(3,699)	3,483
Employee benefits – superannuation		1,829	1,506
Realised foreign exchange (gain) / loss		(1,104)	(5,350)
Unrealised foreign exchange (gain) / loss <sup>(i)</sup>		4,759	38,979

<sup>(i)</sup> Unrealised foreign exchange (gain) / loss relates to the conversion of the Group's US Dollar denominated financial assets and liabilities. This (gain) / loss does not include the foreign exchange movement impact on the revaluation of the Group's biological assets (Note 11: Biological Assets), which uses a US dollar denominated oil price. The impact on the current year revaluation of biological assets was a gain of \$23.845m compared to a gain of \$94.707m in 2015.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

Note	2016 \$'000	2015 \$'000
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**NOTE 4: TAXATION**

**(a) Components of tax expense**

**Current income tax:**

Current tax	3,391	1,819
(Over) / under provision in respect of prior periods	(400)	(1,204)

**Deferred tax:**

Originating and reversing temporary differences	4(d) 29,664	45,762
<b>Income tax (benefit) / expense recognised in the current year</b>	<b>32,655</b>	<b>46,377</b>

**(b) Income tax expense**

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

Prima facie income tax from ordinary activities at 30% (2015: 30%)	36,840	47,819
Adjusted for tax effect of the following		
Tax losses not recognised	1,514	-
Fair value loss on contingent consideration not deductible	(778)	-
(Over) / under provision of prior year	(400)	(1,204)
Gain on Acquisition of controlling interest not assessable	(5,153)	-
Other	632	(238)
<b>Income tax (benefit) / expense recognised in profit and loss</b>	<b>32,655</b>	<b>46,377</b>

The applicable weighted average effective tax rates are as follows: 27% 29%

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

	2016			2015		
	Before tax amount \$'000	Tax \$'000	Net of tax amount \$'000	Before tax amount \$'000	Tax \$'000	Net of tax amount \$'000
Revaluation of land and buildings	(2,552)	765	(1,787)	476	(142)	334
	(2,552)	765	(1,787)	476	(142)	334

2016 \$'000	2015 \$'000
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**(d) Tax assets and liabilities**

**CURRENT**

Current tax liabilities	7,333	7,772
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**Tax consolidation**

Details of the Group's tax consolidation group are discussed in Note 1(I).



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 4: TAXATION**

**NON CURRENT**

	Opening balance \$'000	Charged to income \$'000	Charged directly to equity \$'000	Acquisition \$'000	Exchange differences \$'000	Closing balance \$'000
<b>2016</b>						
<b><i>Deferred tax liabilities</i></b>						
Sandalwood tree unrealised gain not assessable	113,688	25,391	-	-	-	139,079
Deferred income accrual not assessable	28,109	4,418	-	-	-	32,527
Plant & equipment – tax depreciation allowance	6,520	1,616	-	-	-	8,136
Unrealised foreign exchange	7	(7)	-	-	-	-
Revaluation adjustments	3,912	-	(872)	-	-	3,040
Business Combination	-	-	-	43,330	-	43,330
<b>Balance at 30 June 2016</b>	<b>152,236</b>	<b>31,418</b>	<b>(872)</b>	<b>43,330</b>	<b>-</b>	<b>226,112</b>
Less: Deferred tax assets	(24,869)	(1,754)	(495)	-	-	(27,118)
<b><i>Net Deferred tax Liability</i></b>	<b>127,367</b>	<b>29,664</b>	<b>(1,367)</b>	<b>43,330</b>	<b>-</b>	<b>198,994</b>
<b><i>Deferred tax assets</i></b>						
Provisions for accruals	2,860	444	-	-	-	3,304
Taxable unearned MIS income	5,130	(1,87)	-	-	-	3,258
Unrealised foreign exchange	15,858	1,709	-	-	-	17,567
Transaction costs on equity issue	496	-	495	-	-	991
Transaction costs on debt raising	525	(525)	-	-	-	-
Revaluation adjustments	-	1,998	-	-	-	1,998
<b>Balance at 30 June 2016</b>	<b>24,869</b>	<b>1,754</b>	<b>495</b>	<b>-</b>	<b>-</b>	<b>27,118</b>
<b>2015</b>						
<b><i>Deferred tax liabilities</i></b>						
Sandalwood tree unrealised gain not assessable	67,793	45,895	-	-	-	113,688
Deferred income accrual not assessable	20,077	8,032	-	-	-	28,109
Plant & equipment – tax depreciation allowance	4,950	1,570	-	-	-	6,520
Unrealised foreign exchange	-	7	-	-	-	7
Revaluation adjustments	3,801	-	111	-	-	3,912
<b>Balance at 30 June 2015</b>	<b>96,621</b>	<b>55,504</b>	<b>111</b>	<b>-</b>	<b>-</b>	<b>152,236</b>
Less: Deferred tax assets	(15,422)	(9,742)	295	-	-	(24,869)
<b><i>Net Deferred tax Liability</i></b>	<b>81,199</b>	<b>45,762</b>	<b>406</b>	<b>-</b>	<b>-</b>	<b>127,367</b>
<b><i>Deferred tax assets</i></b>						
Provisions for accruals	2,071	789	-	-	-	2,860
Taxable unearned MIS income	7,321	(2,191)	-	-	-	5,130
Unrealised foreign exchange	4,179	11,679	-	-	-	15,858
Transaction costs on equity issue	791	-	(295)	-	-	496
Transaction costs on debt raising	1,060	(535)	-	-	-	525
<b>Balance at 30 June 2015</b>	<b>15,422</b>	<b>9,742</b>	<b>(295)</b>	<b>-</b>	<b>-</b>	<b>24,869</b>

The Group has tax losses of \$6,459,856 (2015: \$Nil) following the acquisition of Santalis and ViroXis which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as there is no evidence of recoverability in the near future.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

Note	2016 \$'000	2015 \$'000
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**NOTE 5: TRADE & OTHER RECEIVABLES (CURRENT)**

Trade debtors <sup>(i) (ii)</sup>	64,617	62,058
Allowance account for impairment of receivables	(332)	(1,171)
	<u>64,285</u>	<u>60,887</u>

Loan to growers <sup>(iii)</sup>	5(a)	15,706	29,479
Bonds and deposits		326	27
Prepayments		4,780	2,879
		<u>85,097</u>	<u>93,272</u>

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

	<u>1,581</u>	<u>6,603</u>
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- (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 37.  
(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.

2016 \$'000	2015 \$'000
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(c) Ageing of past due but not impaired		
60 – 90 days	196	815
90 – 120+ days	28,436	1,769
Total	<u>28,632</u>	<u>2,584</u>

(d) Movement in the allowance account for impairment of receivables (current):		
Balance at the beginning of the year	1,171	316
Impairment losses recognised on receivables	300	1,010
Amounts (written off) as uncollectible	(60)	(3)
Amounts recovered during the year	(2)	(46)
Impaired losses reversed	(1,077)	(106)
Total	<u>332</u>	<u>1,171</u>

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

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

(e) Credit Risk

Included within the balance of trade receivables is a sophisticated investor debtor amounting to \$27.500m. Management of the Group's trade receivable credit risk is set out in Note 30. During the year, growers who defaulted on their payment terms are quantified at less than \$500,000, which represents less than 1% of the total loan book.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 6: INVENTORIES (CURRENT)**

At cost:

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Land held for resale <sup>(i)</sup>	2,688	12,622
Finished goods	11,297	7,646
Work in progress	-	15
Seedlings at cost	251	340
Seed stock	391	800
Harvested trees	8,270	240
Raw materials	2,248	2,135
Less: Provision for obsolete stock	(160)	(138)
	<u>24,985</u>	<u>23,660</u>

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

**NOTE 7: OTHER FINANCIAL ASSETS (CURRENT)**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Cash deposit – MIS Custodian Accounts	<u>2,904</u>	<u>3,000</u>
Cash deposit – MIS Custodian Accounts consists of 50% of establishment fees on new MIS sales relating to the following years.		
TFS Sandalwood Project 2014	-	55
TFS Sandalwood Project 2015	37	2,945
TFS Sandalwood Project 2016	2,867	-
	<u>2,904</u>	<u>3,000</u>

The MIS custodian accounts consist of 50% of establishment fees on new MIS sales and one year's annual and rent fees paid upfront by growers ("upfront annual and rent fees"). These fees are kept in an interest bearing account, which is maintained by an independent custodian. The establishment fees are released quarterly to the Group until completion of the establishment services. The upfront annual and rent fees will be applied in satisfaction of the annual fee and rent in year 14 of the applicable project. Prior to lease and management services being provided, an offsetting amount is recognised as unearned income (refer Note 17).

**NOTE 8: TRADE & OTHER RECEIVABLES (NON CURRENT)**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Loan to growers <sup>(a)</sup>	54,373	30,582
Allowance for impairment of receivables	-	-
	<u>54,373</u>	<u>30,582</u>
Other receivable <sup>(b)</sup>	181	12,958
Total receivables	<u>54,554</u>	<u>43,540</u>
(a) Loan to growers are due for repayment as follows		
- Later than one year but no later than five years	45,526	18,384
- Due later than five years	8,847	12,198
	<u>54,373</u>	<u>30,582</u>

(b) As at 30 June 2015, included in other non-current receivables was \$6.379m relating to research and development funding to a 50% owned associate (Santalís Pharmaceuticals Inc.). As Santalis Pharmaceuticals Inc. ("Santalís") was acquired during the current period, the related receivable has been eliminated on consolidation (refer Note 40).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

2016 \$'000	2015 \$'000
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**NOTE 8: TRADE & OTHER RECEIVABLES (NON CURRENT)**

(c) Aggregate amounts payable by related parties included in loans to growers:		
Director related	9,755	5,459
(d) Refer to Note 30 for details of the credit quality of non-current trade receivables.		
(e) Movement in the provision for impairment of receivables (non-current)		
Balance at the beginning of the year	-	47
Amounts (written off) as uncollectible	-	(47)
Total	-	-

During the year, growers who defaulted on their payment terms is quantified at less than \$500,000 (2015: \$500,000 of debtors defaulted).

In determining the recoverability of a trade receivable, the Group considers the change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. The security will often be the value of the TFS tree lots that related to the debtor balance. At balance date \$313,250 (2015: \$215,113) of grower loan repayments were in arrears, but not classified as impaired, due to the underlying tree value (security) being higher than the amounts in arrears.

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

2016 \$'000	2015 \$'000
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**NOTE 9: OTHER FINANCIAL ASSETS (NON CURRENT)**

Cash deposit – First Loss Account (a)	1,688	2,271
Cash deposit – Bank Guarantee Facility	3,491	2,452
Cash deposit – MIS Custodian Accounts (b)	2,673	2,207
Other	20	19
	7,872	6,949

(a) See Note 33: Contingent Liabilities

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

TFS Sandalwood Project 2012 – Upfront Annual Fee and Rent	802	790
TFS Sandalwood Project 2013 – Upfront Annual Fee and Rent	407	399
TFS Sandalwood Project 2014 – Upfront Annual Fee and Rent	548	536
TFS Sandalwood Project 2015 – Upfront Annual Fee and Rent	492	482
TFS Sandalwood Project 2016 – Upfront Annual Fee and Rent	424	-
	2,673	2,207

The MIS custodian accounts consist of 50% of establishment fees on new MIS sales and one year's annual and rent fees paid upfront by growers ("upfront annual and rent fees"). These fees are kept in an interest bearing account, which is maintained by an independent custodian. The establishment fees are released quarterly to the Group until completion of the establishment services. The upfront annual and rent fees will be applied in satisfaction of the annual fee and rent in year 14 of the applicable project. Prior to lease and management services being provided, an offsetting amount is recognised as unearned income (refer Note 20).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

<b>2016</b>	<b>2015</b>
<b>\$'000</b>	<b>\$'000</b>

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

Leasehold improvements and Plant & Equipment – at cost

Gross carrying amount	112,494	91,334
Less: Accumulated depreciation	(37,668)	(29,105)
Net carrying amount	74,826	62,229

Land & Buildings – at fair value (d)

Gross carrying amount	88,512	85,016
Less: Accumulated depreciation	(1,625)	(1,400)
Net carrying amount	86,887	83,616
Total property, plant & equipment	161,713	145,845

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

<b>2016</b>	<b>2015</b>
<b>\$'000</b>	<b>\$'000</b>

*Land & Buildings*

Carrying amount at the beginning of the year	83,616	67,999
Additions	8,658	7,020
Transfers from inventory	4,157	8,327
Revaluation <sup>(i)</sup>	(9,319)	445
Depreciation expense	(225)	(175)
Carrying amount at the end of the year	86,887	83,616

*Leasehold improvements*

Carrying amount at the beginning of the year	200	177
Additions	12	43
Depreciation expense	(18)	(20)
Carrying amount at the end of the year	194	200

*Other plant & equipment*

Carrying amount at the beginning of the year	62,029	51,493
Additions	22,148	19,531
Disposals	(413)	(1,332)
Depreciation expense	(9,132)	(7,663)
Carrying amount at the end of the year	74,632	62,029

- (b) If land & buildings were stated at historical costs, amounts would be:

Cost	83,562	71,079
Accumulated depreciation	(225)	(176)
	83,337	70,903

- (c) Carrying amount of plant & equipment in the course of construction

40	239
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- <sup>(i)</sup> The net result of the market appraisal and encumbrance adjustment was an impairment impact of \$9.319m, of which, \$6.661m (pre-tax) was recognised in the profit and loss and \$2.658m (pre-tax) to the asset revaluation reserve.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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

**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 2016 were based on an independent market appraisal which covered approximately 71% of the Group's properties in addition to a directors' valuation for the remaining third, and then adjusted using a DCF method to reflect any encumbrances on specific properties. This included accounting for lease fees the Group is entitled to for land leased to investors who elected to pay rent on an annual or deferred basis for the harvest life of their investment. The market appraisal was performed by CBRE, a Licensed Real Estate Agent, with the appropriate qualifications and recent experience to fair value properties in the relevant locations. Properties were valued at their highest and best use which is consistent with current use.

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

**Significant Observable Inputs**

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

**Significant Unobservable Inputs**

- (i) Estimated price per hectare based on current year sales of comparable lots of land in the same area (location and size) of \$10,000 to \$30,000 (2015: \$10,000 to \$30,000).
- (ii) Discount rate based on a market-derived rental yield based on the state where the property is located. The market rental yield applied was between 0.27% to 4.23%.
- (iii) The land will become unencumbered when the trees are harvested within 14 to 16 years of being planted. The weighted average year of harvest is 15.6 years (June 2015: 15.6 years).

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

	2016 \$'000	2015 \$'000
- increase in estimated price per hectare by 10%	4,848	5,330
- decrease in estimated price per hectare by 10%	(4,848)	(5,330)

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

- (f) Plantation management CGU

The recoverable amount of the Plantation management CGU is determined based on value-in-use ("VIU") calculations. VIU is calculated using cash flow projections from financial budgets approved by the Board covering a five year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 3% (2015: 2%), which are based on Group's estimation, taking into consideration historical performance as well as expected long-term operating conditions. Growth rates do not exceed the consensus forecasts of the long-term average growth rate for the industry in which the CGU operates. A post-tax discount rate of 11% (2015: 11%) is applied to the cash flow projections. The discount rate is adjusted to incorporate risks associated with the CGU for the Group at the beginning of the budget period.

Other key assumptions used in assessing the recoverable amount of the Plantation management CGU are (a) Average establishment fee revenue per hectare: \$88,359 per ha, (b) Average hectares sold: 1,464 ha, and (c) Inflation rate: 3%.

The assumptions are determined based on past experience and consistent with external sources of information. Based on current economic conditions and the CGU's performance, no reasonably possible change in a key assumption used in the determination of the recoverable amount of the Plantation management CGU would result in a material impairment to the Group.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 11: BIOLOGICAL ASSETS**

Sandalwood plantation at cost:

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

Add: Fair value adjustment to Sandalwood plantation:

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

**Total Biological Assets**

	<b>623,157</b>	<b>148,051</b>	<b>771,208</b>
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Classified as current<sup>(iv)</sup>

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

	601,150	141,811	742,961
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Sandalwood plantation at cost:

	2015 \$'000	2015 \$'000	2015 \$'000
	TFS INTEREST <sup>(i)(ii)</sup>	EXTERNAL MIS GROWER INTEREST <sup>(iii)</sup>	TOTAL
Opening balance	221,895	53,997	275,892
Additions/disposal <sup>(iv)</sup>	19,777	(176)	19,601
Plantation re-acquired	965	-	965
Less: Harvested trees transferred to inventory	(32)	-	(32)
	242,605	53,821	296,426

Add: Fair value adjustment to Sandalwood plantation:

Opening balance	135,033	32,138	167,171
Fair value gain/(loss)	143,752	34,226	177,978
Additions/ disposal	-	(147)	(147)
Less: Harvested trees transferred to inventory	(198)	-	(198)
	278,587	66,217	344,804

**Total Biological Assets**

	<b>521,192</b>	<b>120,038</b>	<b>641,230</b>
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Classified as current<sup>(iv)</sup>

	17,564	-	17,564
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Classified as non-current

	503,628	120,038	623,666
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(i) Biological assets are encumbered to the extent set out in Note 10.

(ii) This represents plantations owned by TFS and TFS' direct interest within MIS.

(iii) The External MIS grower interest represents the third party grower interest in the biological assets in respect of certain MIS projects which are consolidated for accounting purposes (refer Note 28). The Group has a restricted interest in these assets and the proceeds from the monetisation of these assets will be used to settle the external MIS grower liabilities detailed at Note 19.

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

(v) Additions during the current year of \$33.084m include the acquisition of trees from the Buy back Offer, Arwon loan foreclosures and trees acquired from external investors in accordance with our strategy to acquire mature trees.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 11: BIOLOGICAL ASSETS**

	2016 No.	2015 No.
<b>Physical quantities</b>		
Physical quantity of Indian Sandalwood trees (TFS interest)	1,146,656	1,075,337
Physical quantity of Indian Sandalwood trees (External MIS grower interest)	270,963	271,855

**Fair Value**

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

The fair value measurements for biological assets of \$771.208m, (June 2015: \$641.230m) have been categorised as Level 3 in the fair value hierarchy.

**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 Market Inputs**

US Dollar exchange rate used is used consistently throughout the valuation model at 1.347 AUD, being the spot exchange rate at balance sheet date (June 2015: 1.297 AUD).

**Significant Unobservable Inputs**

- (i) The trees will be harvested within 14 to 16 years of being planted. The weighted average year of harvest is 15.6 years (June 2015: 15.6 years).
- (ii) Forecast of heartwood production at weighted average of 19.6kg (June 2015: 20.8kg) per Sandalwood tree at a 25% moisture content. The forecast heartwood production of each plantation vintage ranges from 6.7kg to 25.6kg per Sandalwood tree.
- (iii) Projected oil content from the heartwood of 3.7% (June 2015: 3.7%) from forecast heartwood at a moisture content of 25%.
- (iv) The price of Sandalwood oil is determined with due consideration to market transactions and industry projections, arriving at an estimate of \$2,800 USD/kg (June 2015: \$2,800 USD/kg) and not inflated.
- (v) The costs consist of growing, harvesting, processing and marketing and sales cost, including:
  - Harvesting and processing (oil extraction) costs, estimated at \$16,000 (June 2015: \$16,000) per hectare and \$207 (June 2015: \$207) per litre of oil;
  - Marketing and sales costs, estimated at 5% (2015: 5%) of proceeds; and
  - Harvesting and processing (oil extraction cost) are held constant in real terms with an annual inflation rate of 3.0% (June 2015: 3.0%).
- (vi) The pre-tax average real rate at which the net cash flows have been discounted range between:
  - 14% (June 2015: 14%) for trees aged 0 to 5 years;
  - 13% (June 2015: 13%) for trees aged 6 to 10 years; and
  - 12% (June 2015: 12%) for trees aged 11 years to harvest age.
- (vii) Cash flows exclude income taxes.

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

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



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

### NOTE 11: BIOLOGICAL ASSETS

#### Sensitivity analysis

##### (i) Foreign Currency Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in USD exchange rate, with all other variables held constant:

	2016 \$'000		2015 \$'000	
	TFS INTEREST	EXTERNAL MIS GROWER INTEREST	TFS INTEREST	EXTERNAL MIS GROWER INTEREST
Change in profit and equity				
- improvement in AUD to USD by 10% (2015: 10%)	(48,354)	(12,393)	(41,648)	(10,321)
- decline in AUD to USD by 10% (2015: 10%)	48,354	12,393	41,648	10,321

##### (ii) Price Risk Sensitivity Analysis

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

	2016 \$'000		2015 \$'000	
	TFS INTEREST	EXTERNAL MIS GROWER INTEREST	TFS INTEREST	EXTERNAL MIS GROWER INTEREST
Change in profit and equity				
- increase in Sandalwood oil price by \$100/kg (2015: \$100/kg)	17,269	4,426	14,874	3,686
- decrease in Sandalwood oil price by \$100/kg (2015: \$100/kg)	(17,269)	(4,426)	(14,874)	(3,686)

##### (iii) Heartwood Yield Risk Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in after tax heartwood yield rate, with all other variables held constant:

	2016 \$'000		2015 \$'000	
	TFS INTEREST	EXTERNAL MIS GROWER INTEREST	TFS INTEREST	EXTERNAL MIS GROWER INTEREST
Change in profit and equity				
- increase in heartwood yield by 10% (2015: 10%)	45,700	11,713	39,273	9,732
- decrease in heartwood yield by 10% (2015: 10%)	(45,700)	(11,713)	(39,273)	(9,732)

##### (iv) Discount Rate Risk Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in after tax discount rate, with all other variables held constant:

	2016 \$'000		2015 \$'000	
	TFS INTEREST	EXTERNAL MIS GROWER INTEREST	TFS INTEREST	EXTERNAL MIS GROWER INTEREST
Change in profit and equity				
- increase in discount rate by 2% (2015: 2%)	(68,259)	(9,506)	(63,839)	(9,435)
- decrease in discount rate by 2% (2015: 2%)	84,615	10,690	80,360	10,803

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 11: BIOLOGICAL ASSETS**

**Project Risk**

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

*(i) Supply and Demand Risk*

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

*(ii) Climate and Other Risks*

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

*(iii) Foreign Currency Risk*

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

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

	2016 \$'000	2015 \$'000
<i>Intangible assets</i>		
Supply agreements – at cost	478	478
<i>Goodwill – at cost</i>		
Opening balance	20,205	20,205
Acquisition of a subsidiary (Note 40)	12,086	-
Impairment reversal / (allowance)	-	-
Closing balance	32,291	20,205
<i>Deferred lease and management fees – at cost</i>		
Opening balance	93,696	66,924
Recognition of deferred fees	21,970	23,430
Deferred fees on trees acquired by the Group transferred to Biological Asset	-	-
Deferred fees realised upon tree buy back scheme	(2,038)	
Deferred fees realised upon harvest	(422)	(141)
Impairment reversal / (allowance)	(3,699)	3,483
Closing balance	109,507	93,696
<i>In-process research and development – at cost (refer Note 40)</i>		
Opening balance	-	-
Acquisition of controlled entities (Note 40)	124,019	-
Amortisation	(1,077)	-
Closing balance	122,942	-
Total Goodwill and Intangibles	265,218	114,379

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

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

*Deferred lease and management fees*

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.

*Goodwill and intangible assets not yet available for use*

Goodwill and in-process research and development not yet available for use are allocated to the sandalwood product and pharmaceutical cash generating units ("CGU") for impairment testing, which are also the Group's operating segments.

	Sandalwood products		Pharmaceutical		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Goodwill	20,205	20,205	12,086	-	32,291	20,205
In-process research and development	-	-	122,942	-	122,942	-

**Sandalwood products CGU**

The recoverable amount of the Sandalwood products CGU is determined based on value-in-use ("VIU") calculations. VIU is calculated using cash flow projections from financial budgets approved by the Board covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 3% (2015: 2%), which are based on Group's estimation, taking into consideration historical performance as well as expected long-term operating conditions. Growth rates do not exceed the consensus forecasts of the long-term average growth rate for the industry in which the CGU operates. A post-tax discount rate of 11% (2015: 11%) is applied to the cash flow projections. The discount rate is adjusted to incorporate risks associated with the CGU for the Group at the beginning of the budget period.

Other key assumptions used in assessing the recoverable amount of the Sandalwood products CGU are as follows:

- Oil yield: 3.7% (2015: 3.7%);
- Heartwood costs: \$130/kg (2015: \$120/kg);
- Production costs: \$357/litre (2015: \$207/litre); and
- Quantity of heartwood to be processed.

The assumptions are determined based on past experience and consistent with external sources of information.

**Pharmaceutical CGU**

The recoverable amount of the Pharmaceutical CGU is determined based on fair value less cost of disposal ("FVLCD") calculations. FVLCD is calculated based on projected cash flows that reflect current market expectations over 17 years. A 17 year cash flow has been applied to take into consideration the fact that the CGU is currently in the research and development phase of its lifecycle with material cash inflows forecasted outside the 5 year range. No extrapolations have been made beyond the 17 year period as pharmaceutical licences are not indefinite and market consensus is that most products have a decreasing proportion of market share after peak penetration. These projections are discounted using a risk adjusted discount rate of 15%, which commensurate with a typical market participant's assessment of the risk associated with the projected cash flows. The fair value measurement is classified as level 3 on the fair value hierarchy.

The following key assumptions were used in assessing the recoverable amount of the Pharmaceutical CGU:

- Discount rate: 15%;
- Revenue from the successful commercialisation of products: \$334.081m; and
- Foreign exchange rate: 1.347 AUD.

The discount rate is based on the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. The foreign exchange rate is determined with reference to external sources of information.

Based on current economic conditions and the CGU's performance, no reasonably possible change in a key assumption used in the determination of the recoverable amount of the Sandalwood products or Pharmaceutical CGU would result in a material impairment to the Group.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 13: OTHER ASSETS (NON CURRENT)</b>		
Water rights	1	1
Land preparation costs	16,040	12,290
Less: Provision for amortisation	(4,627)	(3,780)
	<u>11,413</u>	<u>8,510</u>
Total Other Assets	<u>11,414</u>	<u>8,511</u>

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 14: TRADE &amp; OTHER PAYABLES (CURRENT)</b>		
Unsecured:		
Trade creditors	17,658	19,470
GST payable	6,948	4,474
Dividends payable	119	80
Other creditors and accrued expenses	24,628	31,065
	<u>49,353</u>	<u>55,089</u>

- (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.

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 15: PROVISIONS (CURRENT)</b>		
Employee entitlements	2,322	2,659
Movements in carrying amounts		
Opening balance at beginning of the year	2,659	2,223
Additional provisions	1,534	1,213
Provision utilised	(1,015)	(777)
Balance at the end of the year	<u>3,178</u>	<u>2,659</u>
Current	<u>2,322</u>	<u>2,659</u>
Non-current (Note 18)	<u>856</u>	<u>-</u>

**Provision for Employee entitlements**

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

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 16: FINANCIAL LIABILITIES (CURRENT)</b>		
Secured:		
Hire Purchase Liability	-	9
External MIS Grower Liabilities	6,240	-
Contingent Consideration	7,808	-
	<u>14,048</u>	<u>9</u>

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 17: UNEARNED INCOME (CURRENT)</b>		
Unearned income	<u>22,347</u>	<u>30,361</u>

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 18: PROVISIONS (NON CURRENT)**

	2016 \$'000	2015 \$'000
Lease land restoration	2,435	1,816
Employee Entitlements	856	-
	<u>3,291</u>	<u>1,816</u>

**Movements in carrying amounts**

**Lease land restoration**

Opening balance at beginning of the year	1,816	6,186
Additional provisions	619	465
Interest accretion	-	-
Change in estimated cost	-	(4,835)
Balance at the end of the year	<u>2,435</u>	<u>1,816</u>

A provision has been recognised for the estimated costs to be incurred by the Group in restoring leased land to its original condition, or to that specified within the land lease agreement. Restoration cost per hectare has been determined by reference to the actual cost incurred by the Group to restore recently harvested plantation land and past experience of the level of restoration works required. 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(s) to this report.

**NOTE 19: FINANCIAL LIABILITIES (NON CURRENT)**

**Secured:**

Hire purchase liability	-	-
11% Senior Secured Notes (a)	272,505	229,346
External MIS grower liabilities (b)	141,811	120,038
Contingent Consideration	27,789	-
	<u>442,105</u>	<u>349,384</u>

- (a) As at 30 June 2016, a total of US\$200.000 million has been raised from international markets from the issuance of 11% Senior Secured Notes, with a maturity date of 15 July 2018. This liability has been converted to Australian dollars using an exchange rate of 1.347 (2015: 1.297). 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.

The Notes are represented by one or more global Notes and are listed on the Singapore Stock Exchange (SGX-ST) for trading. Refer Note 31 for fair value disclosures. The Notes are secured by a fixed and floating charge over all the assets of the Group, see Note 10(e).

During the year, US\$25.000 million (A\$36.007m) of additional Notes were raised under the provisions of the existing Senior Secured Notes. These additional Notes were issued at a premium to par of 5.75% and have the same terms and conditions as the existing Notes. The effective rate to maturity is 8.5% for this tranche.

Subsequent to 30 June 2016, the 11% Senior Secured Notes were redeemed early at a premium of 104% on US\$200.000 million following the issuance of new Senior Secured Notes due 1 August 2023. Refer Note 34 for details.

- (b) The external MIS grower liability arises from the consolidation of certain MIS for accounting purposes. The liability will be settled with the proceeds arising from the monetisation of the external MIS grower interests in the Group's biological assets as detailed in Note 11, and will not require any additional cash contribution from the Group outside of the MIS projects. External MIS grower liabilities are carried at fair value through profit and loss. The basis of determining the fair value of the liability, Level 3 within the fair value hierarchy, is consistent with the method adopted by the Group to value its biological assets (refer Note 11) and factors in credit risk and the security provided by the underlying trees.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 19: FINANCIAL LIABILITIES (NON CURRENT)**

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	<b>\$'000</b>
<b>As at 1 July 2015</b>	<b>120,038</b>
Loss on re-measurement of external MIS grower liabilities	21,695
Contingent consideration from business combination	38,192
Re-measurement of contingent consideration	(2,595)
Additional/(disposal)	6,318
<b>As at 30 June 2016</b>	<b>183,648</b>
<b>As at 1 July 2014</b>	<b>86,135</b>
Loss on re-measurement of external MIS grower liabilities	34,226
Additional/(disposal)	(323)
<b>As at 30 June 2015</b>	<b>120,038</b>

The contingent consideration is carried at fair value through profit and loss. Refer to Note 40 for the basis of determining the fair value of the liability within the fair value hierarchy.

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 20: UNEARNED INCOME (NON CURRENT)</b>		
Unearned income	4,943	4,080

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

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 21: ISSUED CAPITAL</b>		
388,090,145 fully paid ordinary shares (30 June 2015: 326,983,445)	280,827	188,948

	<b>2016 No.</b>	<b>2015 No.</b>
<b>Ordinary shares</b>		
At the beginning of the period	326,983,445	324,157,408
Shares issued during the year		
29 Sep 2014 (1,110,000 shares were exercised at \$1.28 per share to raise \$1,420,800)	-	1,110,000
10 Nov 2014 (1,716,037 shares were issued under its DRP at \$1.49 per share for \$2,563,759)	-	1,716,037
Shares issued on 4 Aug 2015 as part of business combination (refer to Note 40) for \$18,632,845	12,675,405	-
Shares issued on 8 Oct 2015 as part of business combination (refer to Note 40) for \$2,559,102	1,740,886	-
Shares issued on 9 Nov 2015 pursuant to dividend reinvestment plan at \$1.65 per share for \$2,661,120	1,612,800	-
Shares issued on 5 Nov 2015 as part of business combination (refer to Note 40) for \$1,346,895	916,255	-
Shares issued on 7 Apr 2016 under capital raising plan \$1.55 per share to raise \$60,450,000	39,000,000	-
Shares issued on 5 May 2016 the company issued under share purchase plan \$1.55 per share to raise \$8,000,099	5,161,354	-
	<b>388,090,145</b>	<b>326,983,445</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 21: ISSUED CAPITAL**

A total of 1,574,400 (2015: 2,534,300) ordinary shares are reserved for employees under the share ownership plan.

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

As part of securing the Notes 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.

	<b>2016</b>		<b>2015</b>	
	<b>No. of options</b>	<b>Weighted average exercise price \$</b>	<b>No. of options</b>	<b>Weighted average exercise price \$</b>
Outstanding at the start of the year	54,390,000	1.28	55,500,000	1.28
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	(1,110,000)	1.28
Expired	-	-	-	-
Outstanding at year end	54,390,000	1.28	54,390,000	1.28
Exercisable at year end	-	-	-	-

**Capital Management**

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

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

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

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Total borrowings	272,505	229,355
Less: Cash and cash equivalents	(106,993)	(72,674)
Net debt	165,512	156,681
Total equity	747,222	574,523
Total capital	912,734	731,204
Gearing ratio	18.13%	21.43%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 22: RESERVES**

**Asset Revaluation Reserve**

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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	8,776	8,442
Revaluation of land and buildings (net of tax)	(1,787)	334
Closing balance	6,989	8,776

**Foreign Currency Translation Reserve**

The foreign currency reserve records revaluations of foreign operations.

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	271	(24)
Net exchange differences on translation of the foreign subsidiary	2,029	295
Closing balance	2,300	271

**Option/Warrant Reserve**

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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	9,403	9,083
Share based payments	675	320
Closing balance	10,078	9,403



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>NOTE 23: CASH FLOW INFORMATION</b>		
<b>Reconciliation of Cash</b>		
Cash balance as per cash flow statement	106,993	72,674
<b>Reconciliation of Operating Profits After Income Tax to the Net Cash Flow Provided by Operating Activities</b>		
Operating profit /(loss) after income tax	90,143	113,021
Add / (less) non-cash items:		
Fair value gain of biological assets – external MIS growers	(21,695)	(34,226)
Fair value loss of external MIS grower liabilities	21,695	34,226
Depreciation and amortisation	11,163	8,575
Fair value gain on contingent consideration liability	(2,595)	-
Tax adjustment taken direct to equity / ARR	1,698	(111)
Unearned FX loss relating to investments/borrowings	8,388	35,357
Share based payments	675	320
Share of net profits from associates	-	(174)
Change in fair value of land and buildings	6,661	-
Gain on Acquisition of Controlling Interest in Associated Entity	(17,177)	-
Net cash provided by operating activities before change in assets and liabilities	98,956	156,988
Changes in operating assets and liabilities:		
Provision for taxation increase / (decrease)	(439)	(5,629)
Provision for impairments increase / (decrease)	(839)	808
Provision for deferred taxation increase / (decrease)	30,547	55,615
Future tax benefit (increase) / decrease	(2,249)	(9,447)
(Profit) / loss on sale of fixed assets	8	27
(Profit) / loss on sale of investments	-	175
(Increase) / decrease in trade debtors	3,414	(944)
(Increase) / decrease in prepayments	(1,870)	1,433
(Increase) / decrease in accrued income receivable	(15,812)	(26,772)
(Increase) / decrease in grower loans	(12,438)	(11,137)
(Increase) / decrease in inventories	2,392	(16,837)
(Increase) / decrease in Sandalwood tree market value	(76,694)	(143,649)
(Increase) / decrease in gain on settlement of trade debtor	(207)	11
Increase / (decrease) in trade creditors, provisions & other payables	3,874	16,059
Increase / (decrease) in unearned income	(8,397)	7,870
Net cash flow from operating activities	20,246	24,571

**Non Cash Operating and Investing Activities**

**Dividend Reinvestment Plan ("DRP")**

1,612,800 shares (2015: 1,716,037 shares) were issued to those shareholders who participated in the Group's DRP. This equated to a reduced dividend payout of \$2.661m (2015: \$2.564m).

**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 \$37.399m (2015: \$29.414m) which has been eliminated from receipts from operations.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

2016 \$'000	2015 \$'000
----------------	----------------

**NOTE 23: CASH FLOW INFORMATION**

**Loan Facilities**

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

Total facilities

- 11% Senior Secured Notes	272,505	229,346
----------------------------	---------	---------

Facilities used at balance date

- 11% Senior Secured Notes	272,505	229,346
----------------------------	---------	---------

2016 \$'000	2015 \$'000
----------------	----------------

**NOTE 24: CAPITAL AND LEASING COMMITMENTS**

*Operating Leases*

Plantation land lease (non-cancellable)

Due not later than one year

4,515	4,379
-------	-------

Later than one year but not later than two years

4,515	4,446
-------	-------

Later than two years but not later than five years

13,217	13,185
--------	--------

Later than five years

16,640	20,855
--------	--------

38,887	42,865
--------	--------

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

2016 \$'000	2015 \$'000
----------------	----------------

*Finance Leases*

Payable:

Not later than one year

-	9
---	---

Later than one year but not later than five years

-	-
---	---

Later than five years

-	-
---	---

Minimum lease payments

-	9
---	---

Less: future finance charges

-	-
---	---

Present value of minimum lease payments

-	9
---	---

*Plantation Land Restoration Commitment*

Payable:

Not later than one year

16	24
----	----

Later than one year but not later than five years

64	94
----	----

Later than five years

38	77
----	----

118	195
-----	-----

*Committed Lease Payments Receivable*

Receivable:

Not later than one year

155	151
-----	-----

Later than one year but not later than five years

176	329
-----	-----

Later than five years

-	2
---	---

331	482
-----	-----

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 24: CAPITAL AND LEASING COMMITMENTS**

*Capital Expenditure Commitments*

Capital expenditure commitments contracted for:

- Land

2016 \$'000	2015 \$'000
----------------	----------------

-	-
---	---

2016 \$'000	2015 \$'000
----------------	----------------

10,241	9,758
--------	-------

**NOTE 25: DIVIDENDS**

*Distributions Paid*

Final fully franked dividend of 3 cents per share paid on 10 November 2015 (2014: 3 cents per share)

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

- Franking account balance as at the end of the financial year at 30% (2015: 30%)
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year
- Franking debits that will arise from the payment of dividends as at the end of the financial year
- Franking credit that will arise from the receipt of dividends recognised as receivables at the reporting date

21,083 25,139

7,333 7,772

- -

- -

1,612,800 shares (2015: 1,716,037 shares) were issued to those shareholders who participated in the Group's dividend reinvestment plan. This equated to a reduced dividend payout of \$2.661m (2015: \$2.564m).

2016 \$'000	2015 \$'000
----------------	----------------

**NOTE 26: EARNINGS PER SHARE**

Earnings used in calculating basic and diluted earnings per share

90,143 113,021

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

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent (after adjusting for warrants) by the sum of the weighted average number of ordinary shares outstanding during the year.

	Number of Shares	
	2016	2015
Weighted average number of ordinary shares for basic EPS <sup>(i)(iii)</sup>	351,340	326,094
Effects of Dilution from Warrants	9,152	13,346
Weighted average number of ordinary shares adjusted for the tax effect of dilution <sup>(i)(iii)</sup>	360,492	339,440

(i) The weighted average number of ordinary shares takes into account the 916,255 shares to be issued at a future date relating to the acquisition of Santalis.

(ii) The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

(iii) 2,128,578 performance rights are contingently issuable and are not included in the diluted EPS.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

2016	2015
\$	\$

**NOTE 27: AUDITOR'S REMUNERATION**

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

- auditing or reviewing the financial report	441,265	275,694
- other assurance	320,330	-
- other services	159,642	256,932
	<u>921,237</u>	<u>532,626</u>

Other services include tax compliance services, corporate modelling, assurance related services and remuneration structure advice.

**NOTE 28: CONTROLLED ENTITIES**

	Country of Incorporation / Place of Business	2016 % owned	2015 % owned
<b>Parent entity:</b>			
T.F.S. Corporation Ltd	Australia	-	-
<b>Subsidiaries of parent:</b>			
Tropical Forestry Services Ltd	Australia	100	100
TFS Leasing Pty Ltd	Australia	100	100
Arwon Finance Pty Ltd	Australia	100	100
TFS Properties Ltd	Australia	100	100
Sandalwood International Pty Ltd	Australia	100	100
Fieldpark Pty Ltd	Australia	100	100
Mt Romance Holdings Pty Ltd	Australia	100	100
Mt Romance Australia Pty Ltd	Australia	100	100
Australian Sandalwood Oil Co. Pty Ltd	Australia	100	100
Tribal Dreaming Pty Ltd	Australia	100	100
Beyond Carbon Pty Ltd (trustee company only)	Australia	100	100
Gulf Natural Supply Co.	UAE	100	100
Santalís Pharmaceuticals Inc. <sup>(c)</sup>	USA	100	-
ViroXis Corporation	USA	100	-
TFS Sandalwood Project 2000 <sup>(b) (d)</sup>	Australia	67	-
TFS Sandalwood Project 2004 Premium <sup>(a) (b)</sup>	Australia	13	14
TFS Sandalwood Project 2005 <sup>(a) (b)</sup>	Australia	14	14
TFS Sandalwood Project 2006 <sup>(a) (b)</sup>	Australia	17	17
TFS Sandalwood Project 2007 <sup>(a) (b)</sup>	Australia	33	33

- (a) Control in accordance with the principles of AASB 10 *Consolidated Financial Statements*. Refer Note 1(z).
- (b) The ownership interest reflected in the table above represent TFS' direct interest in the wood lots within the schemes. In addition to these direct interests the Group had an indirect interest in TFS 2000, TFS 2004 Premium, TFS 2005, TFS 2006, and TFS 2007 of 6%, 37%, 24%, 26% and 14% respectively (2015: 21%, 36%, 22%, 24% and 13%, respectively).
- (c) At 30 June 2015, Santalis was held as an Associate and equity accounted and not considered a subsidiary hence the % owned in the table is shown as nil.
- (d) At 31 May 2016, through a buy back arrangement, TFS effectively acquired an additional 66% interest in the scheme for a cash consideration of \$11.845m. TFS now controls the scheme and has a direct interest of 67%. The transaction has been accounted for as an asset acquisition.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 28: CONTROLLED ENTITIES**

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

Summarised statement of financial position - 30 June 2016

	<b>TFS Sandalwood Project 2000 \$'000</b>	<b>TFS Sandalwood Project 2004 Premium \$'000</b>	<b>TFS Sandalwood Project 2005 \$'000</b>	<b>TFS Sandalwood Project 2006 \$'000</b>	<b>TFS Sandalwood Project 2007 \$'000</b>
Biological assets	6,240	13,847	15,999	47,389	64,575
Grower liabilities	(6,240)	(13,847)	(15,999)	(47,389)	(64,575)
Net assets	-	-	-	-	-

Summarised statement of financial position - 30 June 2015

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

Summarised statement of profit or loss for the year ended - 30 June 2016

	<b>TFS Sandalwood Project 2000 \$'000</b>	<b>TFS Sandalwood Project 2004 Premium \$'000</b>	<b>TFS Sandalwood Project 2005 \$'000</b>	<b>TFS Sandalwood Project 2006 \$'000</b>	<b>TFS Sandalwood Project 2007 \$'000</b>
Revaluation of Biological assets	(165)	2,309	1,097	7,655	10,798
Re-measurement of Grower liabilities	165	(2,309)	(1,097)	(7,655)	(10,798)
Net profit for the year	-	-	-	-	-

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 28: CONTROLLED ENTITIES**

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:

	<b>2016</b> <b>\$'000</b>	<b>2015</b> <b>\$'000</b>
<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>		
Revenue	176,381	213,250
Other income	63,590	140,194
Direct plantation and other operating expenses	(28,603)	(27,760)
Raw materials and consumables used	(15,181)	(11,959)
Salaries and employees benefits expense	(30,537)	(24,483)
Sales and marketing expenses	(7,339)	(6,727)
Corporate and other administration expenses	(17,958)	(14,296)
Depreciation and amortisation expenses	(10,158)	(8,546)
Finance costs	(28,017)	(44,641)
Fair value gain/(loss) on contingent consideration	1,909	-
Unrealised foreign exchange gain / (loss)	(5,033)	(38,732)
<b>Profit before income tax expense</b>	<b>99,054</b>	<b>176,300</b>
Income tax expense	(29,217)	(43,422)
<b>Profit for the period</b>	<b>69,837</b>	<b>132,878</b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods:</i>		
Revaluation of land and buildings (net of tax)	-	259
<b>Total comprehensive income for the period</b>	<b>69,837</b>	<b>133,137</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 28: CONTROLLED ENTITIES**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>STATEMENT OF FINANCIAL POSITION</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	93,683	62,785
Trade and other receivables	66,587	60,735
Biological assets	22,007	9,414
Inventories	22,206	10,609
Current Tax Assets	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>204,483</b>	<b>143,543</b>
<b>NON CURRENT ASSETS</b>		
Trade and other receivables	94,526	182,071
Other financial assets	188,848	9,808
Property, plant and equipment	80,046	66,996
Deferred tax assets	23,171	22,250
Biological assets	570,077	486,972
Intangible assets and goodwill	37,891	32,487
Investments accounted for using equity method	-	-
Other assets	11,072	8,479
<b>TOTAL NON CURRENT ASSETS</b>	<b>1,005,631</b>	<b>809,063</b>
<b>TOTAL ASSETS</b>	<b>1,210,114</b>	<b>952,606</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	47,230	44,044
Financial liabilities	7,808	9
Current tax liabilities	7,333	7,772
Provisions	3,178	2,606
Unearned income	20,756	26,413
<b>TOTAL CURRENT LIABILITIES</b>	<b>86,305</b>	<b>80,844</b>
<b>NON CURRENT LIABILITIES</b>		
Provisions	65	47
Financial liabilities	300,294	229,346
Deferred tax liabilities	144,567	119,862
Unearned income	757	849
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>445,683</b>	<b>350,104</b>
<b>TOTAL LIABILITIES</b>	<b>531,988</b>	<b>430,948</b>
<b>NET ASSETS</b>	<b>678,126</b>	<b>521,658</b>
<b>EQUITY</b>		
Issued capital	280,827	188,947
Asset revaluation reserve	742	742
Option/Warrant reserve	10,079	9,404
Foreign Currency Translation Reserve	2,373	-
Retained earnings	384,105	322,565
<b>TOTAL EQUITY</b>	<b>678,126</b>	<b>521,658</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 28: CONTROLLED ENTITIES AND UNCONSOLIDATED MANAGED INVESTMENT SCHEMES**

***Unconsolidated managed investment schemes***

TFS does not control any of its other MIS's exception as detailed above. TFS has no obligation to provide financial support or funding to these MIS's. During the year, establishment fee income of \$5.734m from TFS Sandalwood Project 2016 and harvest fees of \$0.248m from TFS Sandalwood Project No.2 was received. In the prior year, establishment fee income of \$5.891m from TFS Sandalwood Project 2015 and harvest fees of \$0.423m from East Kimberley Sandalwood Project No.1 was received. The biological assets recognised on balance sheet relating to TFS' interests in the unconsolidated MIS's is \$30.256m (2015: \$22.349m).

**NOTE 29: 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.

A new operating segment has been created to capture the pharmaceutical product business, arising from the acquisition of Santalis and ViroXis. The results and position of this segment are included in internal reports that are reviewed and used by the Board of Directors for decision making.

**Types of Products and Services by Segment**

**(i) Plantation Management**

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

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

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

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

**(ii) Finance**

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

**(iii) Sandalwood Products**

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

**(iv) Pharmaceutical**

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

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 29: OPERATING SEGMENTS**

**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.

*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 Group's 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, interest free and repayable in full when the borrower is in a financial position to effect this.

*Segment Assets*

Investments in financial assets, deferred tax assets and intangible assets have been allocated to an operating segment.

*Segment Liabilities*

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

*Unallocated Items*

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**  
**NOTE 29: OPERATING SEGMENTS**

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

**Primarily reporting in business segments**

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>										
Establishment fees	94,966	79,647	-	-	-	-	-	-	94,966	79,647
Land sales	8,094	7,045	-	-	-	-	-	-	8,094	7,045
Lease and management fees	28,760	23,187	-	-	-	-	-	-	28,760	23,187
Product sales	-	-	-	-	29,778	27,662	76	-	29,854	27,662
Interest – external	1,128	1,144	2,488	2,337	5	-	1	-	3,622	3,481
Interest – inter segment	3,539	2,509	-	-	-	-	-	-	3,539	2,509
Other – external	9,299	12,650	480	234	58	585	536	-	10,373	13,469
Other – internal	328	54	-	-	766	398	-	-	1,094	452
Accrued income recognition	16,233	26,913	-	-	-	-	-	-	16,233	26,913
Gain on settlement of trade debtor	-	-	-	-	-	-	-	-	-	-
Gain on revaluation of plantation – TFS interest	76,893	143,752	-	-	-	-	-	-	76,893	143,752
<b>Total segment revenue</b>	<b>239,240</b>	<b>296,901</b>	<b>2,968</b>	<b>2,571</b>	<b>30,607</b>	<b>28,645</b>	<b>613</b>	<b>-</b>	<b>273,428</b>	<b>328,117</b>
<i>Reconciliation of segment revenue to group revenue</i>										
Less other income									(77,092)	(147,049)
Inter segment revenue									(4,634)	(2,961)
<b>Total group revenue from ordinary activities</b>									<b>191,702</b>	<b>178,107</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 29: OPERATING SEGMENTS**

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Result</b>										
Earnings before interest, tax, depreciation and amortisation (EBITDA)	140,882	180,946	2,786	1,820	10,949	9,402	(3,999)	-	150,618	192,168
Impairment of property, plant and equipment	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-	-
<hr/>										
<i>Reconciliation of segment EBITDA to group EBITDA</i>										
Inter segment revenue									(4,634)	(2,961)
Unallocated gain – acquisition of controlling interest									17,177	-
Total group EBITDA									163,161	189,207
<hr/>										
<b>Segment result before income tax</b>	104,818	154,069	535	(630)	10,154	8,746	(5,252)	-	110,255	162,185
<hr/>										
<i>Reconciliation of segment result to group net profit before tax</i>										
Inter segment revenue									(4,634)	(2,961)
Amounts not included in segment results but reviewed by the Board										
Unallocated gain – acquisition of controlling interest									17,177	-
Share of net profits from associates									-	174
Net profit before tax from continued operations									122,798	159,398

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 29: OPERATING SEGMENTS**

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<b>Segment Assets</b>										
Segment Assets	1,199,345	995,291	72,947	63,123	46,759	46,298	137,324	-	1,456,375	1,104,712
Segment increases for the period:										
Capital expenditure	22,258	16,881	-	-	-	-	-	-	22,258	16,881
Acquisitions	7,211	8,690	-	-	1,325	1,023	-	-	8,536	9,713
	29,469	25,571	-	-	1,325	1,023	-	-	30,794	26,594
<b>Reconciliation of segment assets to group assets</b>										
External MIS grower interest in biological assets									148,051	120,038
Inter segment receivables eliminated on consolidation									(112,468)	(71,689)
Total group assets from continuing operations									1,491,958	1,153,061
<b>Segment Liabilities</b>										
Segment Liabilities	542,965	459,833	58,774	49,485	2,476	11,786	67,698	-	671,913	521,104
<b>Reconciliation of segment liabilities to group liabilities</b>										
External MIS grower liabilities									148,051	120,038
Inter segment payables eliminated on consolidation									(75,228)	(62,605)
Total group liabilities from continuing operations									744,736	578,537

**Geographic information**

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 30: FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

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

	Note	2016 \$'000	2015 \$'000
<b>Financial assets:</b>			
Cash and cash equivalents	23	106,993	72,674
Loans and receivables			
- Cash deposit: First loss, bank guarantee, escrow and custodian account	7,9	10,756	9,930
Loans and receivables		139,651	136,812
Total financial assets		257,400	219,416
<b>Financial liabilities</b>			
<b>Financial liabilities at fair value through profit or loss</b>			
- External MIS grower liability at fair value through profit and loss^		148,051	120,038
- Contingent consideration	40	35,597	-
<b>Financial liabilities at amortised cost</b>			
- Trade and other payables		49,353	55,098
- Borrowings	19	272,505	229,346
<b>Total financial liabilities</b>		505,506	404,482

^ The External MIS Grower liabilities of \$148.051m (2015 \$120.038m) is offset by the exposure on the External MIS Grower interest in the biological assets with a carrying value of \$148.051m (2015 \$120.038m).

**Financial Risk Management**

**(i) Treasury Risk Management**

A treasury committee has been established to regularly review the treasury risk management policies and to report to the MD, 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) Risk Management Objectives and Policies**

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 manages its interest rate risk by having fixed rate borrowings to fund its fixed rate loans to growers. The Group also regularly monitors its risk on interest rate exposure and refinancing opportunities and interest rate hedging strategies if deemed necessary. The interest rate applicable to the 11% Senior Secured Notes is fixed over the full term of the Notes.

At the balance sheet date the following interest bearing financial assets and financial liabilities were exposed to Australian variable interest rates:

	2016 \$'000	2015 \$'000
Cash	103,963	69,644
Cash deposits	5,578	5,207

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 30: FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

*Interest Rate Sensitivity*

The following tables demonstrate the sensitivity to a reasonably possible change in after tax interest rate, with all other variables held constant:

	2016 \$'000	2015 \$'000
Change in profit and equity		
- increase in interest rate by 1%	532	578
- decrease in interest rate by 1%	(532)	(578)

Excluded from this sensitivity calculation is the effect of interest rate changes on the contingent consideration payable which is non interest bearing and the 11% Senior Secured Notes which are subject to a fixed interest rate.

*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.

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

2016	Maturing in			Total	Weighted Average Coupon Rate
	Within 1 Year	1 to 5 Years	More than 5 Years		
	\$'000	\$'000	\$'000	\$'000	
<b>Financial liabilities</b>					
Trade creditors	49,353	-	-	49,353	N/A
Secured Notes	-	282,834	-	282,834	11.00%
Contingent Consideration	7,808	27,789	-	35,597	N/A
MIS external grower liabilities*	6,240	-	141,811	148,051	N/A
<b>Total financial liabilities</b>	<b>63,401</b>	<b>310,623</b>	<b>141,811</b>	<b>515,835</b>	

2015	Maturing in			Total	Weighted Average Coupon Rate
	Within 1 Year	1 to 5 Years	More than 5 Years		
	\$'000	\$'000	\$'000	\$'000	
<b>Financial liabilities</b>					
Trade creditors	55,089	-	-	55,089	N/A
Secured Notes	-	302,859	-	302,859	11.00%
HP liabilities	9	-	-	9	9.55%
MIS external grower liabilities*	-	-	120,038	120,038	N/A
<b>Total financial liabilities</b>	<b>55,098</b>	<b>302,859</b>	<b>120,038</b>	<b>477,995</b>	

\* MIS external grower liabilities allocation based on predicted harvest date.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 30: FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

*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 transacting entity's functional currency.

The Group is primarily exposed to the fluctuations in the US dollar in relation to the US\$200.000 million Senior Secured Notes, maturing 2018, with semi-annual US dollar interest payable and the contingent consideration payable in US dollar.

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

*Foreign Currency Risk Sensitivity Analysis*

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant:

	2016 \$'000	2015 \$'000
Change in profit and equity		
- improvement in AUD to USD by 10%	(29,795)	(16,950)
- decline in AUD to USD by 10%	29,795	16,950

*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 sheet 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;
- payment terms for certain establishment fees can extend beyond 30 days; and
- if any defaults are recognised the company can claim on its security by reclaiming the underlying Sandalwood lot.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 30: FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The credit risk for counterparties included in the trade and other receivables at 30 June 2016 is detailed below:

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
<b>Trade and Other Receivables</b>		
Counterparties not rated	139,651	136,812
<b>Cash and Cash Equivalents</b>		
AA rated counterparties	106,993	72,674
<b>Loans and Receivables</b>		
AA rated counterparties	5,178	4,723
Counterparties not rated	5,578	5,207
	10,756	9,930

*Price Risk*

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities. The Group is exposed to commodity price risk in relation to its biological assets and operations carried on by its Sandalwood products division. The External MIS Grower liabilities of \$148.051m (2015 \$120.038m) are exposed to price risk. This however is offset by the exposure on the External MIS Grower interest in the biological assets with a carrying value of \$148.051m (2015 \$120.038m). The Group does not anticipate that the Sandalwood album or spicatum price will decline significantly in the foreseeable future.

*Price Risk Sensitivity Analysis*

The following tables demonstrate the sensitivity to a reasonably possible change in market prices, with all other variables held constant:

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Change in profit and equity		
- increase in market prices by 10%	45,700	39,273
- decrease in market prices by 10%	(45,700)	(39,273)



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 31: FAIR VALUE MEASUREMENT**

The following table provides the fair value and carrying amounts of the Group's assets and liabilities:

	Note	2016		2015	
		Carrying amount	Fair value	Carrying amount	Fair value
		\$'000	\$'000	\$'000	\$'000
<b>Assets measured at fair value:</b>					
Property, plant and equipment					
Freehold land and buildings	10	86,887	86,887	83,616	83,616
Biological assets	11	771,208	771,208	641,230	641,230
<b>Assets for which fair values are disclosed:</b>					
Trade & other receivables		139,651	131,765	136,812	134,684
		997,746	989,860	861,658	859,530
<b>Liabilities measured at fair value:</b>					
External MIS grower liabilities	16,19	148,051	148,051	120,038	120,038
Contingent consideration	40	35,597	35,597	-	-
<b>Liabilities for which fair values are disclosed</b>					
11% Senior Secured Notes	19	272,505	282,834	229,346	247,077
Trade and other payables	14	49,353	49,353	55,089	55,089
		505,506	515,835	404,473	422,204

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Fair value measurement hierarchy for assets as at 30 June 2016

	Date of valuation	Total	Fair value measurement using \$'000		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measured at fair value</b>					
Property, plant and equipment (Note 10)					
Freehold land	30 June 2016	81,336	-	-	81,336
Buildings	30 June 2016	5,551	-	-	5,551
Biological assets (Note 11)	30 June 2016	771,208	-	-	771,208
<b>Assets for which fair values are disclosed</b>					
Trade & other receivables	30 June 2016	131,765	-	131,765	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 31: FAIR VALUE MEASUREMENT**

Fair value measurement hierarchy for liabilities as at 30 June 2016

	Date of valuation	Total	Fair value measurement using \$'000		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Liabilities measured at fair value</b>					
External MIS grower liabilities	30 June 2016	148,051	-	-	148,051
Contingent consideration	30 June 2016	35,597	-	-	35,597
<b>Liabilities for which fair values are disclosed</b>					
11% Senior Secured Notes	30 June 2016	282,834	-	282,834	-

Fair value measurement hierarchy for assets as at 30 June 2015

	Date of valuation	Total	Fair value measurement using \$'000		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measured at fair value</b>					
Property, plant and equipment (Note 10)					
Freehold land	30 June 2012	78,168	-	-	78,168
Buildings	30 June 2012	5,448	-	-	5,448
Biological assets (Note 11)	30 June 2015	641,230	-	-	641,230
<b>Assets for which fair values are disclosed</b>					
Trade & other receivables (current) (Note 9)	30 June 2015	134,684	-	134,684	-

Fair value measurement hierarchy for liabilities as at 30 June 2015

	Date of valuation	Total	Fair value measurement using \$'000		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Liabilities measured at fair value</b>					
External MIS grower liabilities	30 June 2015	120,038	-	-	120,038
<b>Liabilities for which fair values are disclosed</b>					
11% Senior Secured Notes	30 June 2015	247,077	-	247,077	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 31: FAIR VALUE MEASUREMENT**

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

<b>Nature of item</b>	<b>Fair value methods and assumptions</b>
Cash, cash equivalents and short-term investments	The carrying amount approximates fair value because of their short term maturity.
Trade receivables and payables (current)	The carrying amount approximates fair values.
Trade & other receivables (non-current)	The fair values of long-term loans receivable are estimated using discounted cash flow analysis, based on market rates for similar types of borrowing arrangements.
Short-term borrowings	The carrying amount approximates fair value because of their short-term to maturity.
11% Senior Secured Notes	The fair value of the interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects a market rate as at the end of the reporting period.
External MIS grower liabilities	The fair value is determined using a probability weighted discounted cash flow method. This is consistent with the method adopted by the Group to value its biological assets (refer Note 11) and factors in credit risk and the security provided by the underlying trees.
Contingent consideration	As part of the acquisition of Santalis and ViroXis (refer Note 40), part of the total consideration is contingent, based on performance of the acquired entities. A probability weighted discounted cash flow method has been used to determine the fair value of the contingent consideration, net of the fair value of the option to settle in shares using the Black Schole option pricing model.

**NOTE 32: CONTRACTUAL COMMITMENTS**

On 31 July 2015 the Group finalised the acquisition of Santalis and ViroXis and as a result the Group has agreed to underwrite funding for the amount of US\$2.5m per annum per company for five years for Santalis' and ViroXis' product development costs.

**NOTE 33: CONTINGENT LIABILITIES**

- (i) A controlled entity is managing a portfolio of MIS grower loans on behalf of the Commonwealth Bank of Australia (CBA) and under the agreement the entity has a legal liability to indemnify the CBA for any defaulting grower loans. This legal liability is limited to \$1.688m, being the amount of cash available in the First Loss Account (refer Note 9). The portfolio of loans consists of existing loans sold to the CBA in 2008 and direct grower funding for the TFS 2008 and TFS 2009 projects. Once indemnified the Group takes the loan back onto its balance sheet with the established Sandalwood trees acting as security over the receivable.
- (ii) Included in the sales to sophisticated investors during June 2014 are put options whereby the investor can elect to sell the trees back to the Group at the lower of market value or a predetermined price. These put options are eligible to be exercised in September 2018, and if exercised the Group would be required to pay the consideration in November 2018 and November 2019. If all the options were exercised the Group would be required to acquire the plantations from the sophisticated investors at the lower of a predetermined price of \$51.321m or market value. The Group has deemed the likelihood of the put options being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.
- (iii) Included in the sales to an institutional investor during June 2014 is a put option whereby the investor can elect to sell the trees back to the Group at a predetermined price, exercisable by 30 April 2017. If exercised the Group would be required to pay the consideration in September 2017. If the options were exercised the Group would be required to acquire the plantations from the institutional investor for \$33.924m. The Group has deemed the likelihood of the put option being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016**

**NOTE 34: EVENTS AFTER BALANCE SHEET DATE**

On 21 July 2016, the Group announced the issuance of US\$250.000m of Senior Secured Notes. The proceeds of these new Notes were used to redeem the Group's original Notes, issued in 2011 and due in 2018. The new issuance extended the maturity of the Group's debt by 5 years to 2023 and reduced the Group's cost of debt by 20%.

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2016 of 3 cents per share. This equates to a total dividend of \$11.643m.

**NOTE 35: SHARE BASED PAYMENTS**

The following share based payment arrangements existed at 30 June 2016:

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 T.F.S. Corporation Ltd. The options are exercisable any time within 3 years of first commercial Sandalwood delivery. The first commercial Sandalwood delivery occurred by the end of 2014. The exercise price for each warrant is \$1.80.

	2016		2015	
	No. of options	Weighted average exercise price \$	No. of options	Weighted average exercise price \$
Outstanding at the start of the year	1,000,000	1.80	1,000,000	1.80
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	1,000,000	1.80	1,000,000	1.80
Exercisable at year end	-	-	-	-

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 35: SHARE BASED PAYMENTS**

**TFS LTIP**

On 13 November 2015, 250,594 performance rights were granted to the Managing Director under the TFS Long Term Incentive Plan ("TFS LTIP"). The performance rights are subject to two performance hurdles which are independent and will be tested separately. Details of the performance hurdles are as follows:

EPS performance hurdle - Basic cash EPS – performance rights will be subject to the Group's basic cash EPS growth performance over the period 1 July 2015 to 30 June 2019.

TSR performance hurdle – performance rights subject to the Group's growth in Total Shareholder Return ("TSR") over the period 1 July 2015 to 30 June 2019.

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

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.15%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

The weighted average fair value of the rights at grant date was \$1.69 (EPS performance right) and \$0.91 (TSR performance right) and is calculated applying the following inputs:

Weighted average exercise price	\$0
Expiry date	13 November 2022
Underlying share price at date of grant	\$1.69
Share price volatility	45.73%
Dividend yield	1.9%

On 22 January 2016, 1,192,321 performance rights were granted to Key Management Personnel and senior employees under the TFS Long Term Incentive Plan ("TFS LTIP"). The performance rights are subject to two performance hurdles which are independent and will be tested separately. Details of the performance hurdles are as follows:

EPS performance hurdle - Basic cash EPS – performance rights will be subject to the Group's basic cash EPS growth performance over the period 1 July 2015 to 30 June 2019.

TSR performance hurdle – performance rights subject to the Group's growth in Total Shareholder Return ("TSR") over the period 1 July 2015 to 30 June 2019.

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

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.05%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

The weighted average fair value of the rights at grant date was \$1.55 (EPS performance right) and \$0.78 (TSR performance right) and is calculated applying the following inputs:

Weighted average exercise price	\$0
Expiry date	18 December 2022
Underlying share price at date of grant	\$1.55
Share price volatility	45.73%
Dividend yield	1.9%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 35: SHARE BASED PAYMENTS**

During the 2015 financial year, there were 2,128,578 performance rights on issue. This price was calculated using the Black Scholes pricing model applying the following inputs:

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

The following rights are on issue under TFS LTIP:

	2016		2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	2,101,459	-	-	-
Granted during the year	1,442,914	-	2,128,578	-
Forfeited during the year	(20,450)	-	(27,119)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Closing balance	3,523,923	-	2,101,459	-
Exercisable at 30 June	-	-	-	-

The weighted average remaining contractual life for the LTIP outstanding as at 30 June 2016 was 2.12 years (2015: 2.53 years).

The weighted average fair value of rights granted during the year was \$1.19 (2015: \$1.03).

The exercise prices for rights outstanding at the end of the year was \$0 (2015: \$0).

**Share acquisition plan**

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

The following rights are on issue under the plan:

	2016		2015	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	2,534,300	0.74	3,914,334	0.77
Issued during the year	-	-	-	-
Rights previously held by employees who have resigned	(121,000)	0.97	(305,000)	-
Options exercised by employees	(838,900)	0.72	(1,075,034)	0.82
Closing balance	1,574,400	0.74	2,534,300	0.74

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 35: SHARE BASED PAYMENTS**

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

Option series	Number	Grant Date	Expiry date	Weighted average exercise price (\$)	Weighted average fair value at grant date (\$)
Share issue no. 1	429,500	9/3/2007	No fixed date	0.56	0.26
Share issue no. 2	182,500	6/6/2008	No fixed date	1.11	0.60
Share issue no. 3	-	6/6/2008	No fixed date	1.15	0.59
Share issue no. 4	577,400	27/2/2009	No fixed date	0.72	0.36
Share issue no. 5	217,700	2/2/2010	No fixed date	1.02	0.45
Share issue no. 6	167,300	10/5/2013	No fixed date	0.52	0.21
	<u>1,574,400</u>				

**NOTE 36: KEY MANAGEMENT PERSONNEL COMPENSATION**

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

	2016 \$'000	2015 \$'000
Short-term employee benefits	3,470,122	2,600,254
Post-employment benefits	312,853	199,374
Other long term benefits	38,503	117,423
Termination benefits	-	-
Share based payments	279,284	154,242
	<u>4,100,762</u>	<u>3,071,293</u>

**NOTE 37: RELATED PARTY TRANSACTIONS**

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

**Loans to Key Management Personnel**

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

*Terms and conditions of loans to KMP and their related parties:*

Loans to senior executives are charged interest at normal commercial terms and conditions that are no more favourable than those available to other parties. The average commercial rate of interest during the year was 9.1% (2015: 8.3%).

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

2016	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Balance at the end of year	Interest charged	No. in group
	\$	\$	\$	\$	\$	\$	
Directors – Loans	12,061,500	-	(725,166)	-	11,336,334	483,707	1
Other key management – loans	-	-	-	-	-	-	-
Other key management – 12 month payment term	626,636	46,197	(551,935)	-	120,898	36,634	2
Total	12,688,136	46,197	(1,277,101)	-	11,457,232	520,341	

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 37: RELATED PARTY TRANSACTIONS**

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

<sup>(i)</sup> Relates to employees who became KMP on 1 July 2014.

<sup>(ii)</sup> Amount relates to a director who resigned.

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

The Group provided several of its KMP with short-term loans at 7.5% average interest rate which is comparable to the average commercial rate of interest.

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

2016	Nature of loan	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Balance at the end of year	Interest charged
		\$	\$	\$	\$	\$	\$
F Wilson	Loans <sup>(i)</sup>	12,061,500	-	(725,166)	-	11,336,334	483,707
	Terms <sup>(ii)</sup>	-	-	-	-	-	-
I Thompson	Loans <sup>(i)</sup>	540,080	-	(540,080)	-	-	29,135
	Terms <sup>(ii)</sup>	-	-	-	-	-	-

<sup>(i)</sup> Loans used solely for the purpose of investing in TFS plantations (on terms no more favourable than other plantation investors).

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

2015	Nature of loan	Balance at beginning of the year	Amount advanced	Principal repayments	Sale of loan	Balance at end of the year	Interest charged
		\$	\$	\$	\$	\$	\$
F Wilson	Loans <sup>(i)</sup>	13,267,650	-	(1,206,150)	-	12,061,500	302,364
	Terms <sup>(ii)</sup>	-	-	-	-	-	-
R Eacott	Loans <sup>(i)</sup>	129,936	-	(129,936)	-	-	-
	Terms <sup>(ii)</sup>	22,743	12,174	(34,489)	-	428	-
I Thompson	Loans <sup>(i)</sup>	493,523	46,557	-	-	540,080	46,557
	Terms <sup>(ii)</sup>	-	-	-	-	-	-

<sup>(i)</sup> Loans used solely for the purpose of investing in TFS plantations (on terms no more favourable than other plantation investors).

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 30 JUNE 2016****NOTE 37: RELATED PARTY TRANSACTIONS****Other Transactions with Director Related Entities:**

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

- (i) Frank Wilson was a principal of Wilson & Atkinson and was a part owner in the business until it ceased trading in the year. This company provided legal services on commercial terms to the Group. During the year ending 30 June 2016, an amount of \$159,673 (2015: \$346,947) was charged to the Group. Frank Wilson neither directly nor indirectly received any financial benefit from these payments.
- (ii) Other transactions with Directors as plantation investors (on terms no more favourable than other plantation investors).
  - Total investments by Dalton Gooding during the year ended 30 June 2016 were nil (2015: \$275,000 GST inclusive). No rebates were applied against this investment. No loans were entered into as the investment was settled in cash by 30 June 2015; and
  - Project lease and management fees paid by Directors during the year were \$1,821,722 GST inclusive (2015: \$6,738 GST inclusive).
- (iii) During the year, TFS Corporation Ltd acquired the remaining 50% of the shares in Santalis Pharmaceuticals, Inc. and 100% in ViroXis Corporation which is 19.1% and 4.9% owned respectively, by Dr. Paul Castella. Refer to Note 40 for details of acquisition.

**Transaction Within the Wholly Owned Group**

The ultimate parent entity in the wholly owned group is T.F.S. Corporation Ltd.

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

**NOTE 38: PARENT ENTITY DISCLOSURES**

	2016 \$'000	2015 \$'000
<b>(a) Financial Position</b>		
<b>Assets</b>		
Current assets	71,643	42,129
Non-current assets	577,736	422,984
	649,379	465,113
<b>Liabilities</b>		
Current liabilities	30,431	20,128
Non-current liabilities	303,022	232,537
	333,453	252,665
<b>Net assets</b>	315,926	212,448
<b>Equity</b>		
Issued capital	280,827	188,949
Option reserve	10,079	9,404
Foreign Currency Translation Reserve	2,373	-
Retained profits	22,647	14,095
	315,926	212,448
<b>(b) Financial performance</b>		
Profit for the year	20,255	10,288
Other comprehensive income	2,373	-
<b>Total comprehensive income</b>	22,628	10,288

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 38: PARENT ENTITY DISCLOSURES**

**(c) Contingent Liabilities of the Parent Entity**

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

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

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

**(e) Intercompany Loans to Controlled Entities**

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

	2016 \$'000	2015 \$'000
<i>Intercompany Loans to Controlled Entities</i>		
Tropical Forestry Services Ltd – Pre 31 May 2011	42,374	42,374
Arwon Finance Pty Ltd – Pre 31 May 2011	10,152	10,152
Mt Romance Holdings Pty Ltd	(2,727)	(3,191)
Gulf Natural Supplies Co	129	9,940
Tropical Forestry Services Ltd – Post 31 May 2011	240,512	248,078
Arwon Finance Pty Ltd – Post 31 May 2011	48,286	39,321
TFS Properties Ltd – Post 31 May 2011	2,014	25,150
Santalís Pharmaceutical Inc	12,433	-
ViroXis Corporation	1,499	-
	<u>354,672</u>	<u>371,824</u>

**NOTE 39: ECONOMIC DEPENDENCY**

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

**NOTE 40: BUSINESS COMBINATIONS**

On 31 July 2015, T.F.S. Corporation Ltd acquired Santalis Pharmaceuticals Inc. ("Santalís") and ViroXis Corporation ("ViroXis"). Santalis manufactures and markets botanical pharmaceuticals using Indian Sandalwood oil, whilst ViroXis is a bio-pharmaceutical company focused on developing and commercialising innovative, proprietary, botanical pharmaceuticals derived from Indian Sandalwood oil. The strategic rationale behind the acquisition was:

- Extend the Group's vertically integrated business and bring within the Group the formulation and development of products which is likely to maximise the demand for the Group's Indian Sandalwood oil;
- Provide the Group with increased access to the significant potential returns from royalty and licensing fees from dermatology products; and
- Provide a direct contractual and operational relationship with leading global pharmaceutical companies.

	Name	Type	Location
31 July 2015	Santalís Pharmaceuticals, Inc.	50% of the shares in the Company (now 100% owned subsidiary).	San Antonio, TX, United States
31 July 2015	ViroXis Corporation	100% of the shares in the Company.	San Antonio, TX, United States

The business combinations contributed revenues of \$0.140m from ViroXis and \$0.537m from Santalis and net loss before tax of \$3.299m from ViroXis and \$3.412m from Santalis for the year ended 30 June 2016 from their date of acquisition. It is expected that the Group would have reported \$268.86m in consolidated revenues and \$82.385m consolidated net profit after tax attributable to members for the year ended 30 June 2016, had the business combination occurred at the beginning of the reporting period.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 40: BUSINESS COMBINATIONS**

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Final fair value recognised on acquisition (31 July 2015) \$'000		
	Santalís Pharmaceuticals Inc.	ViroXis Corporation	Consolidated
<b>Assets</b>			
Cash	789	1,123	1,912
Accounts receivable	107	186	293
Other assets	149	201	350
Intangible assets	60,938	62,945	123,883
Property, plant and equipment	5	20	25
	61,988	64,475	126,463
<b>Liabilities</b>			
Trade and other payables	(2,199)	(74)	(2,273)
Financial liability	(9,862)	(137)	(9,999)
Deferred tax liability	(21,310)	(22,020)	(43,330)
	(33,371)	(22,231)	(55,602)
<b>Total identifiable net assets at fair value</b>	<b>28,617</b>	<b>42,244</b>	<b>70,861</b>
Goodwill arising on acquisition	12,086	-	12,086
Discount arising on acquisition	-	(290)	(290)
	40,703	41,954	82,657
<i>Analysis of consideration</i>			
Cash	-	4,883	4,883
Equity instruments	5,274	17,421	22,695
Contingent consideration	18,669	19,523	38,192
Fair value uplift on pre-existing interests	16,760	127	16,887
<b>Value of total consideration</b>	<b>40,703</b>	<b>41,954</b>	<b>82,657</b>

**(a) Equity instruments**

The fair value of the 2,565,176 ordinary shares issued to Santalis, and 916,255 ordinary shares to be issued to Santalis, and 11,851,115 ordinary shares issued to ViroXis as part of the consideration paid (\$5.274m and \$17.421m respectively) was measured using the closing market price of TFS ordinary shares on acquisition date.

**(b) Financial assets**

Included in the assets acquired were receivables with a gross contractual and fair value of \$0.293m resulting from trade sales with customers and related parties. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

**(c) Consideration**

*(i) Cash consideration:*

A portion of the consideration of \$4.883m was paid in cash to ViroXis during the period. On acquisition, the Group acquired the cash balances of \$0.789m in Santalis and \$1.123m in ViroXis, resulting in a net cash movement of \$2.971m as shown as a payment on the Consolidated Statement of Cash Flows for the period

*(ii) Contingent Consideration:*

The Group will pay the vendors further consideration over the next 8 years if further milestones and performance criteria are achieved (as detailed below). The additional future contingent consideration has been assessed to have a fair value (discounted) of \$38.192m at the date of acquisition. At 30 June 2016, the fair value of the contingent consideration had decreased to \$35.597m due to the unwinding of the discount and changes in foreign currency.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016

#### NOTE 40: BUSINESS COMBINATIONS

##### Performance criteria - Milestone payments

The purchase price for ViroXis will increase by a maximum of US\$26.0 million if the following milestones are achieved within certain periods in up to five years after completion:

1. US\$2.0 million on the launch of an over-the-counter ("OTC") product
2. US\$4.0 million on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication
3. US\$4.0 million on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
4. US\$8.0 million on FDA approval of a prescription product for a skin indication
5. US\$8.0 million on FDA approval of a prescription product for a second skin indication

The purchase price for Santalis will increase by a maximum of US\$20.0 million if the following milestones are achieved in the five years after completion:

1. US\$5.0 million on the launch of a new OTC product
2. US\$2.5 million on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication
3. US\$2.5 million on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
4. US\$5.0 million on FDA approval of a prescription product for a skin indication
5. US\$5.0 million on FDA approval of a prescription product for a second skin indication

If FDA approval of a prescription product (milestones 4 and 5 above) is granted between five and eight years post completion, then 50% of the relevant milestone payment will be payable. All milestone payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

##### Base earn out payments

The purchase price for ViroXis will increase by a maximum of US\$50.0 million based on the level of aggregate net cash flow ("NCF") generated by the business in the five years post completion. The base earn out payment thresholds are:

No earn out payment	Less than US\$4.3 million
US\$5.0 million	NCF equal to or greater than US\$4.3 million and less than US\$8.6 million
US\$15.0 million	NCF equal to or greater than US\$8.6 million and less than US\$12.8 million
US\$35.0 million	NCF equal to or greater than US\$12.8 million and less than US\$17.1 million
US\$50.0 million	NCF equal to or greater than US\$17.1 million

The purchase price for Santalis will increase by a maximum of US\$31.0 million based on the level of aggregate net cash flow ("NCF") generated by the business in the five years post completion. The base earn out payment thresholds are:

No earn out payment	Less than US\$2.5 million
US\$5.0 million	NCF equal to or greater than US\$2.5 million and less than US\$5.0 million
US\$10.0 million	NCF equal to or greater than US\$5.0 million and less than US\$7.4 million
US\$20.0 million	NCF equal to or greater than US\$7.4 million and less than US\$9.9 million
US\$31.0 million	NCF equal to or greater than US\$9.9 million

All base earn out payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

##### Incentive earn out payments

The purchase price for ViroXis will increase by an incentive earn out payment equal to 20% of the NCF in excess of US\$10.0 million for each of the three years ending on the six, seven and eight year anniversaries of completion. The incentive earn out payment is capped at US\$60.7 million.

The purchase price for Santalis will increase by an incentive earn out payment equal to 20% of the NCF in excess of US\$10.0 million for each of the three years ending on the six, seven and eight year anniversaries of completion. The incentive earn out payment is capped at US\$37.5 million.

All incentive earn out payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

##### Final earn out payments

The purchase price for ViroXis will increase by a final earn out payment equal to 20% of the amount, if any, that aggregate NCF for the 8-year period after completion exceeds US\$111.9 million, subject to the maximum purchase price cap for all purchase payments of US\$154.9 million.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016  
NOTE 40: BUSINESS COMBINATIONS**

The purchase price for Santalis will increase by a final earn out payment equal to 20% of the amount, if any, that aggregate NCF for the 8-year period after completion exceeds US\$111.7 million, subject to the maximum purchase price cap for all payments of US\$90.0 million.

All final earn out payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

**Description of contingent consideration arrangements**

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

The fair value of the contingent consideration arrangement relating to all milestone payments of \$35.597m which was estimated by using the discounted cashflow methodology, taking into consideration the option to settle in shares at TFS's election, and represents the fair value at acquisition date. The fair value measurement is based on significant inputs that are not observable in the market, which AASB 13 *Fair Value Measurement* refers to as Level 3 inputs.

**Significant unobservable valuation inputs are provided below:**

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

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

**Sensitivity analysis – Contingent consideration**

*(a) Foreign Currency Risk Sensitivity Analysis*

The following tables demonstrate the sensitivity to a reasonably possible change in exchange rate in the Australian dollar to the US dollar, with all other variables held constant:

	2016 \$'000	2015 \$'000
--	----------------	----------------

Change in profit

- increase in AUD to USD by 10% (2015: nil%)	(2,750)	-
- decrease in AUD to USD by 10% (2015: nil%)	2,750	-

*(b) Discount Rate Risk Sensitivity Analysis*

The following tables demonstrate the sensitivity to a reasonably possible change in discount rate, with all other variables held constant:

	2016 \$'000	2015 \$'000
--	----------------	----------------

Change in profit and equity

- increase in discount rate by 2% (2015: nil%)	1,429	-
- decrease in discount rate by 2% (2015: nil%)	(1,553)	-

*(c) Revenue Risk Sensitivity Analysis*

The following tables demonstrate the sensitivity to a reasonably possible change in revenue, with all other variables held constant:

	2016 \$'000	2015 \$'000
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Change in profit and equity

- increase in revenue by 10% (2015: nil%)	(771)	-
- decrease in revenue by 10% (2015: nil%)	(3,373)	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016

#### NOTE 40: BUSINESS COMBINATIONS

As at 30 June 2016, the key performance indicators of Santalis and ViroXis show that it is highly probable that the target will be achieved due to a significant expansion of the business and the synergies realised. The fair value of the contingent consideration determined at 30 June 2016 reflects this development, amongst other factors and a remeasurement charge has been recognised through profit or loss. A reconciliation of recurring fair value measurement of the contingent consideration liability (Level 3 within the fair value hierarchy) is provided below:

2016 \$'000
38,192
(2,595)
<b>35,597</b>

#### As at 1 July 2015

Liabilities arising on business combination

Unrealised fair value changes recognised in profit or loss

#### As at 30 June 2016

#### (d) Separately recognised assets

No transactions were required to be recognised separately from the acquisition assets and assumptions of liabilities in the business combination.

#### (e) Acquisition-related costs

Direct costs relating to the acquisition totalling \$1.848m have been recognised as corporate and other administration expenses in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2016.

#### (f) Goodwill on acquisition

The goodwill of \$12.086m in Santalis arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of these entities and TFS, and the assembled workforce acquired. None of the goodwill recognised is expected to be deductible for income tax purposes.

#### (g) Gain on deemed disposal of Associate/Investment

- (i) Immediately prior to the acquisition of Santalis, the Group held a 50% non-controlling interest in Santalis which was carried at nil value by the Group. As part of the business combination, the Group is deemed to have disposed of its 50% interest in the Associate. At acquisition date, the fair value of these equity interests was estimated to be \$16.760m. This was derived from the consideration paid to acquire the remaining 50% and was adjusted for the control premium paid. This resulted in a net gain on disposal of Associate of \$16.760m.
- (ii) Immediately prior to the acquisition of ViroXis, TFS exercised a warrant to acquire a 7% non-controlling interest in ViroXis which was carried at \$1.979m in the Group. As part of the business combination, TFS is deemed to have disposed of its 7% interest in ViroXis. At acquisition date, the fair value of the initial 7% interest was estimated to be \$2.106m. This was derived from the consideration paid for the remaining 93% and was adjusted for the control premium paid. This resulted in a net gain on disposal of Investment of \$0.127m.

#### NOTE 41: COMPANY DETAILS

The registered office of the company is:

169 Broadway  
Nedlands WA 6009

The principal places of business are:

Perth Office  
169 Broadway  
Nedlands WA 6009

Plantation  
24 Konkerberry Drive  
Kununurra WA 6743

Mt Romance  
Lot 2 Down Road  
Albany WA 6330

Plantation  
3/143 Edward Street  
Ayr Qld 4807

Plantation  
23 Providence Court  
Katherine NT 0850

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

### Report on the financial report

We have audited the accompanying financial report of TFS Corporation Ltd, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

### Independence

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

## Opinion

In our opinion:

- a. the financial report of TFS Corporation Ltd 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 2016 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the remuneration report of TFS Corporation Ltd for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



D S Lewsen  
Partner  
Perth  
25 August 2016